
FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2009
STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY

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SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act (FMFIA) of 1982

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DEPARTMENT OF THE NAVY
UNDER SECRETARY OF THE NAVY
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WASHINGTON, DC 20350-1000

AUG 25 2009

MEMORANDUM FOR SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act (FMFIA)

As the Under Secretary of the Navy, I recognize that Department of the Navy (DON) managers are responsible for establishing and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). I am able to provide a qualified statement of reasonable assurance that the DON's non-financial internal controls meet the objectives of the FMFIA overall program's administrative and operational activities with the exception of the two unresolved material weaknesses provided in TAB B. The material weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of the date of this memorandum. Other than the material weakness noted in TAB B, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

TAB A provides information on how the DON conducted the assessment of internal controls for the FMFIA over non-financial operations, which was conducted according to the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control." In addition, TAB A provides a summary of the significant accomplishments taken to improve the Department's internal controls during the past year. Corrective actions for six prior period material weaknesses have been completed as reported in TAB B-2. The completion of corrective actions needs to be validated to ensure not only that it has been done, but that the intended results are being achieved. Completion of corrective actions indicates action on specific control-related deficiencies has been documented as complete and does not necessarily indicate an overall DON-wide issue has been eliminated.

The DON conducted an internal control assessment of the effectiveness of the DON General Fund's internal control over financial reporting for the following implementation areas: Collections and Disbursements, Procure to Pay Processes, Real Property, General Equipment, Military Equipment and Operating Materials and Supplies. The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by Department of Defense (DoD) guidance under the oversight of the Senior Assessment Team, which is maintaining complete records of the assessment documentation. Based on the results of this evaluation, I am able to provide a qualified statement of assurance that the DON General

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Fund's internal control over financial reporting implementation areas as of June 30, 2009, were operating effectively with the exception of the six material weaknesses described in TAB D. These material weaknesses were found in the internal controls over the reliability of financial reporting as of June 30, 2009. Other than the material weaknesses noted in TAB D, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting for the DON General Fund. Areas that are not inside the implementation areas listed above were not assessed. Therefore, I can provide no assurance on areas that are not within the above listed implementation areas for the DON General Fund.

The DON conducted an internal control assessment of the effectiveness of the Navy Working Capital Fund's internal control over financial reporting for the following implementation areas: Collections and Disbursements, Procure to Pay Processes, Inventory, Real Property, and General Equipment. The assessment of the implementation areas was conducted in strict compliance with the OMB Circular A-123, Appendix A, as directed by DoD guidance under the oversight of the Senior Assessment Team, which is maintaining complete records of the assessment documentation. Based on the results of this evaluation, I am able to provide a qualified statement of assurance that the Navy Working Capital Fund's internal control over financial reporting implementation areas as of June 30, 2009, were operating effectively with the exception of the five material weaknesses described in TAB E. These material weaknesses were found in the internal controls over the reliability of financial reporting as of June 30, 2009. Other than the material weaknesses noted in TAB E, the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls over financial reporting for the Navy Working Capital Fund. Areas that are not inside the implementation areas listed above were not assessed. Therefore, I can provide no assurance on areas that are not within the above listed implementation areas for the Navy Working Capital Fund.

The 2009 DON Statement of Assurance reflects the Department's internal control environment and activities from prior years. Commands continue to utilize process improvement methodologies to make this management program more viable. This robust program, the increased self-reporting activity and resulting transparency serve to support my assurance that the DON's system of internal controls is operating efficiently to ensure good stewardship, enhance decision-making capability and comply with Office of the Secretary of Defense policy.

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My point of contact is Mr. Michael Moreau. He may be reached at 202.685.6737 or michael.moreau@navy.mil.



Robert O. Work
Under Secretary of the Navy

Attachments:
As stated

MANAGERS' INTERNAL CONTROL EVALUATION PROCESS

Reporting Fiscal Year for the Department of the Navy (DON)

The Statement of Assurance (SOA) provides an adequate and timely assessment of DON internal controls and discloses Material Weaknesses identified during the 12 month period from July 1, 2008 to June 30, 2009. This established time frame allows the DON to obtain input from its Major Assessable Units (MAUs) and to provide comprehensive plans and schedules to correct the identified weaknesses.

Concept of Reasonable Assurance

The DON senior management evaluated the system of internal accounting and administrative controls in effect during the Fiscal Year (FY) as of the date of this memorandum, according to the guidance in Office of Management and Budget (OMB) Circular No. A-123, "*Management's Responsibility for Internal Control*," December 21, 2004. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Included is an evaluation of whether the system of internal accounting and administrative control for the DON is in compliance with standards prescribed by the Comptroller General.

The objectives of the system of internal accounting and administrative control of the DON are to provide reasonable assurance that:

- All program operations, obligations and costs are in compliance with applicable laws;
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for, to permit the preparation of reliable accounting, financial and statistical reports and to maintain accountability over the assets.

The evaluation of internal controls extends to every responsibility and activity undertaken by the DON and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to risk that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

The DON evaluated the system of internal control in accordance with the guidelines identified above. The results indicate that the DON's system of internal accounting and administrative

control during FY 2009, taken as a whole, provide reasonable assurance that the above mentioned objectives were achieved.

Determination of Reasonable Assurance Status

The accomplishments included in TAB A-2, along with financial process improvements, closure of audit report recommendations, and self-reporting, are the best indicators that internal controls are in place and effective. Success in achieving the Department's objectives continues to increase the effectiveness of the entire Department, improve the lives of Sailors, Marines and all DON employees, and result in greater security for the Nation. As such, the Secretary of the Navy (SECNAV) has reasonable assurance that the system of management controls is operating as intended with the exception of the Material Weaknesses reported. The DON Managers' Internal Control (MIC) Program is decentralized and encompasses shore commands and afloat forces. SECNAV, through the Under Secretary of the Navy (UNSECNAV) and the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)), is responsible for the overall administration of the MIC Program, which includes developing operational policies and procedures, coordinating reporting efforts, and performing oversight reviews. Primary responsibility for program execution and reporting resides with the 20 MAUs, which include the Assistant Secretaries of the Navy, the Chief of Naval Operations, the Commandant of the Marine Corps, Secretariat Staff Offices and other entities that report directly to the SECNAV or UNSECNAV. These MAUs provide SECNAV with their own annual MIC Certification Statements. These certification statements are used as the primary source documents for the Secretary's determination of reasonable assurance over internal controls.

In addition, the DON's Auditor General, in collaboration with the ASN(FM&C)'s Office of Financial Operations (FMO), is responsible for reviewing significant Department-level audit reports and identifying potential Material Weaknesses. The high degree of collaboration and communication between FMO's MIC program coordinators and Naval Audit Service (NAVAUDSVC) has resulted in a consistent and comprehensive perspective on the DON's internal control position. The DON managers' internal control self-assessments and an ongoing external perspective provided in program audits are the two major inputs to the DON SOA.

Material Weaknesses

The DON is committed to full disclosure of Material Weaknesses and re-establishing effective controls in those specific areas. Based on the certification statements provided by the MAUs, and the joint NAVAUDSVC/ASN(FM&C) evaluation process, there are no new material weaknesses being reported in FY 2009 (TAB B-2).

Additionally, there are two prior period weaknesses being reported in FY 2009 (TAB B-2) where a plan of corrective action either remains open or requires independent validation of completion: (1) Earned Value Management of Littoral Combat Ships (LCS) 1 and 2; and (2) Management of Communications Security (COMSEC) Equipment.

The DON is reporting corrective actions for six prior period weaknesses as complete in FY 2009 (TAB B-3): (1) Marine Corps Small Arms Reporting; (2) Contingency Planning (CP) and CP

Testing Management; (3) Oversight of Earned Value Management (EVM) for Naval Acquisition Programs; (4) Safeguarding Personally Identifiable Information; (5) Continuity Planning Program; and (6) Management and Oversight of the Department of the Navy's Telecommunication Program.

While the MIC Program is an active, on-going effort throughout the DON, senior leadership will review the status of current and potential Material Weaknesses on a quarterly basis.

FMFIA Over Financial Reporting

As specified in DoD Instruction 5010.40, "*Managers' Internal Control Program Procedures*," the DON has separate statements of assurance for FMFIA Over Financial Reporting. This document includes Material Weaknesses identified relating to the internal controls over financial reporting and the plans to correct them. Consistent with our current control testing, we can provide qualified assurance on internal controls over financial reporting for the DON General Fund and the Navy Working Capital Fund within the designated implementation areas.

The DON continues to make progress toward audit readiness through completion of DON FIP milestones. Internal control documentation and testing, in compliance with Appendix A of OMB Circular A-123, provide critical elements to achieve and sustain audit readiness. However, Material Weaknesses in several DON FIP segments continue to exist. In TAB D, we note Material Weaknesses in the DON General Fund financial reporting in: (1) Collections and Disbursements, (2) Procure to Pay Processes, (3) General Equipment, (4) Military Equipment, (5) Operating Materials and Supplies, and (6) Real Property. In TAB E, we describe Material Weaknesses in the Navy Working Capital Fund financial reporting in: (1) Collections and Disbursements, (2) Procure to Pay Processes, (3) Inventory, (4) General Equipment, and (5) Real Property.

The Marine Corps, a subsidiary reporting entity within the DON, has documented and strengthened financial and business practices to improve the accuracy, timeliness and reliability of reported financial information. Through recently concluded internal control assessments, the Marine Corps is able to highlight financial and business practice reliability for material lines of the Balance Sheet and Statement of Budgetary Resources. The scope of testing and the degree of confidence achieved also demonstrate steady progress towards asserting audit readiness in FY 2009.

We recognize the complementary role of government internal review organizations such as the Naval Audit Service, the Inspector General Offices, and the Naval Criminal Investigative Service in providing areas where control deficiencies are likely. These control deficiency areas are highlighted to the MAUs for broad management assessment. The Material Weaknesses reported in this SOA reflect close cooperation with organizations providing oversight.

Acquisition

As required by OMB Circular A-123, the DON provides this summary of its Assessment of Internal Control over Acquisition Functions using the guidelines set forth in OMB Circular A-

123 and Office of the Secretary of Defense Acquisition Technology and Logistics (OSD AT&L) Guidance. This effort focused on determining whether any (new) deficiencies or material weaknesses exist within DON and associated corrective action plans.

DoD and OMB templates were used as the primary guides for assessing affectivity of internal controls over acquisition functions. DON implementation of controls established in DoD Instruction (DoDI) 5000.02 "*Operation of the Defense Acquisition System*" were evaluated in comparison to elements of OMB Circular A-123 cornerstones (organizational alignment and leadership; policies and processes; human capital; and information management and stewardship).

SECNAVINST 5000.2D of 16 October 2008, "*Implementation and Operation of the Defense Acquisition System and the Joint Capabilities Integration and Development System*" serves as the fundamental internal control policy for implementation and compliance with statutory and regulatory requirements of DoDI 5000.02. SECNAVINST 5000.2D applies to all acquisition programs, Abbreviated Acquisition Programs, non-acquisition programs, and Rapid Deployment Capability programs.

The DON Gate Review process established 26 February 2008 and incorporated into the SECNAVINST 5000.2D, is the primary mechanism for program insight and governance of Acquisition Category (ACAT) I and selected ACAT II programs. The Gate Review process ensures alignment between Service-generated capability requirements and acquisition, as well as improving senior leadership decision-making through better understanding of risks and costs throughout a program's entire life cycle. Overall program health is assessed at each Gate Review and addressed in the resulting decision document upon completion of the review.

DON uses a tool called "*Probability of Program Success*" as the key metric for assessing overall program health including program requirements; resources; planning and execution; and external influencers. Program health is assessed at all Gate Reviews and is based on weighted criteria depending on the phase of the program.

Current Program Decision Meetings (PDM) as set forth in SECNAVINST 5420.188F "*Acquisition Category Program Decision Process*" provide the forum for the Component Acquisition Executive to review program cost, schedule and performance in preparation for a key acquisition decision. These forums may be integrated with the updated Gate Review process.

SECNAVINST 5400.15C of 13 SEP 07 "*Department of the Navy, Research, Development and Acquisition, and Associated Life-Cycle Management Responsibilities*" documents duties and responsibilities of ASN RD&A; Program Executive Officers (PEOs); Direct Reporting Program Managers (DRPMs); Chief of Naval Operations (CNO); Commandant of the Marine Corps (CMC); and Systems Command (SYSCOM) Commanders. Duties addressed in this policy focus on research and development, acquisition and associated life cycle management and logistics responsibilities. This guidance also emphasizes the necessity for careful management and close oversight by the DON leaders to properly account for resources and to deliver quality products.

The Navy Marine Corps Acquisition Regulation Supplement (NMCARS) establishes uniform DON policies and procedures implementing and supplementing the Federal Acquisition Regulation (FAR) and the Defense FAR Supplement (DFARS). The NMCARS is prepared, issued, and maintained pursuant to the authority of SECNAVINST 5400.15 and applies to all DON activities in the same manner and to the same extent as specified in the FAR and DFARS.

The ASN RD&A Dashboard system is a live database that provides SECNAV, ASN RD&A, the Office of the CNO, Headquarters Marine Corps, SYSCOMs, PEOs, DRPMs, and the Program Managers (PMs) a tool to manage the various ACAT programs with consistent data throughout the Chain-of-Command. PMs must complete Dashboard updates for ACAT I, II, and III programs on a quarterly basis. Dashboard requires general information regarding program milestones and status; and detailed information addressing program assessment, budget information, and metrics information.

DON uses the Earned Value Management System (EVMS) as a metric to measure contractor performance. Earned Value is an element of program health assessed during the Gate 6 review following the PM's Integrated Baseline Review (IBR) with the contractor. IBR objectives include: assess the Performance Measurement Baseline (PMB) adequacy including identification of risks; achieve a mutual understanding of the PMB and its relationship to EVMS; ensure tasks are planned and objectively measurable relative to technical progress; attain agreement on a plan of action to evaluate any identified risks; and quantify the identified risks and incorporate an updated Estimate At Complete (EAC).

Indicators of practices and activities that facilitate good acquisition outcomes include, but are not limited to, the Naval Capabilities Board (NCB); Resources & Requirements Review Board (R3B); Configuration Steering Boards (CSBs); requirement for Independent Cost Estimates (ICEs); requirement for program Independent Operational Test and Evaluation (OT&E); and the use of Integrated Product Teams.

The NCB/R3B recommends validation of all war fighting requirements, including Key Performance Parameters (KPPs) and Key System Attributes (KSAs). The R3B is the Navy's forum for reviewing and making decisions on Navy requirements and resource issues. The R3B acts as the focal point for decision-making regarding DON requirements; the validation of non-acquisition related, emergent, and Joint requirements; the synchronization of Planning, Programming, Budgeting, and Execution (PPBE) milestones; and resolution of cross-enterprise or cross-sponsor issues.

DON has implemented DoD's requirement for annual CSBs by integrating this function into the Gate Review process. ASN RD&A, as the SAE, chairs the Gate 6 CSB. CSBs consist of broad membership including representation by the Acquisition, Requirements, and Resourcing communities. Gate 6 CSBs review all requirements changes and any significant technical configuration changes which have the potential to result in cost and schedule impacts to programs.

The Naval Center for Cost Analysis (NCCA) prepares life cycle ICEs for those programs delegated to the DON SAE as Milestone Decision Authority (MDA). NCCA also conducts

component cost analyses for joint programs for which DON is the lead. NCCA chairs a DON Cost Assessment review of program office and independent life cycle cost estimates and component cost analyses to support major milestone decisions for designated programs. Formal presentations of estimates are made to the Director, NCCA. Differences in estimates are noted, explained, and documented in a memorandum from NCCA to ASN RD&A.

The Commander, Operational Test and Evaluation Force (COMOPTEVFOR) and Director, Marine Corps Operational Test and Evaluation Activity (MCOTEA) are responsible for independent OT&E of assigned DON programs that require OT&E. COMOPTEVFOR plans, conducts, evaluates, and reports the OT&E of designated programs; monitors smaller category programs; evaluates initial tactics for systems that undergo OT&E; and makes fleet release or introduction recommendations to the Chief of Naval Operations (CNO) for all programs and those configuration changes selected for OT&E.

Integrated Product Teams (IPTs) are an integral part of the defense acquisition process used to maintain continuous and effective communications and to execute programs. IPTs may address issues regarding requirements/capabilities needs, acquisition strategy and execution, financial management, milestone and decision review preparation, etc. MDAs and PMs are responsible for making decisions and leading execution of their programs through IPTs. IPTs typically include representation from acquisition functional areas including program management; cost estimating; budget and financial management; contracting; engineering; test and evaluation; logistics; software development; production/quality control; safety; etc. DON effectively balances the use of IPTs with the requirement, via SECNAVINST 5000.2D, for PEOs, SYSCOMs, DRPMs, and PMs to ensure separation of functions so the authority to conduct oversight, source selection, contract negotiations/award does not reside in one person.

Possible Performance Gaps and Corrective Actions

Gap -1: The DoD Inspector General (DoDIG) and the Defense Science Board (DSB) have released reports indicating a material internal control weakness in the DON process for rapidly acquiring and fielding of materiel solutions to urgent needs requests.

Corrective Action: DON published an updated SECNAV Notice addressing Urgent Needs Process policy on March 12, 2009, as a result of a continuous process improvement effort. The document defines the DON Urgent Needs Process (UNP) and provides guidance for the submission, processing, and response to urgent needs. This Notice incorporates lessons learned and best practices from the Navy, Marine Corps, and Joint Staff processes and establishes overarching DON governance of a uniform process across the Navy and Marine Corps. The UNP ends with the delivery of a solution that meets an acceptable level of performance, timeline, and quantities as defined by the operating forces, and includes a handoff for sustainment and consideration within the deliberate process.

Gap 2: -Some programs continue to execute over cost and behind schedule.

Corrective Action: Various efforts and policy/process updates are underway in DON to improve Acquisition program performance and outcomes: implementation of the new OSD AT&L

requirement for Service Cost Positions; updates to the DON Gate Review process with increased focus on Total Ownership Cost; and focus on prototyping and competition to identify, mitigate, manage and/or retire risks earlier in a program's acquisition life cycle.

Gap 3: -GAO has recently issued reports recommending improvements in the DoD Acquisition Workforce.

Corrective Action: In December 2008, DON initiated in-sourcing strategies focusing on bringing the core technical and business functions back into the organic acquisition workforce. Additionally, the Defense Acquisition Workforce Development Fund (DAWDF) authorized by the 2009 NDAA, Section 852, will fund DON to in-source approximately 3,500 contractor positions to civilian positions and to hire at least 1,590 additional Section 852 civilian employees.

DON MIC Program Training

The DON MIC Program continues to expand, reaching managers and coordinators at all levels of the DON. In April 2009, the MIC Program team held a training workshop for its Major Assessable Units (MAUs) and other echelon II MIC coordinators. The workshop included: (1) a review of definition and application of assessable units, (2) the effective understanding and writing of material weaknesses, (3) the effective understanding and writing of accomplishments, and (4) an interactive case study combining the aforementioned topics. Twenty-four MIC coordinators attended the four-hour long session.

Points of Contact

The DON points of contact for the MIC Program and issues dealing with Material Weaknesses reported in the DON's FY 2009 Managers' Internal Control Statement of Assurance are:

- Mr. Dennis Taitano, DASN(FM&C) Financial Operations. Mr. Taitano may be reached at (202) 685-6701, or by email at dennis.taitano@navy.mil.
- Ms. Nancy McDermott, ASN(FM&C)/Office of Financial Operations. Ms. McDermott may be reached at (202) 685-6719, or by email at nancy.l.mcdermott@navy.mil.
- Mr. Michael Moreau, ASN(FM&C)/Office of Financial Operations. Mr. Moreau may be reached at (202) 685-6737, DSN 325-6737, or by email at michael.moreau@navy.mil.

MANAGERS' INTERNAL CONTROL (MIC) PROGRAM AND RELATED ACCOMPLISHMENTS

The numerous MIC accomplishments reported in fiscal year (FY) 2009 reflect a Department of the Navy (DON)-wide emphasis of an improved and strengthened MIC Program. Not only at the highest levels of reporting – the DON's Major Assessable Units (MAU) – but also throughout the reporting structure. The most significant MIC Program and mission related accomplishments achieved during FY 2009 are highlighted in this section. These improvements relate directly to the DON MIC Program, business transformation efforts, process improvements, and internal controls over financial reporting across the DON.

STRENGTHENING DON MANAGERS' INTERNAL CONTROLS

ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER (ASN(FM&C))

Office of Financial Operations (FMO) Communications: The DON Financial Improvement Program (FIP) required a broad communication strategy that would reinforce the approach and convey current status of the effort. FMO hosted or produced a number of FIP communication events or tools, including the DON FIP Conference, FIP Work Group, Memorandum of Agreement, and the *Arrow* Newsletter. The goal of these communication devices is to foster communication and leverage FIP best practices. The *Arrow* Newsletter was developed to provide a forum to discuss internal control subjects. Jointly published by the DON FIP and DON MIC Program, the Newsletter provides the DON community with an understanding of FIP and MIC objectives, approaches to addressing program requirements, and status on program efforts.

NAVAL AUDIT SERVICE

Compliance with Generally Accepted Government Auditing Standards (GAGAS): SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit," requires Naval Audit Service to perform audits in accordance with GAGAS. GAGAS are professional standards and guidance that provide a framework for conducting high quality government audits. GAGAS quality control standards require audit organizations to establish a system of quality control that encompasses the organization's structure and policies adopted and the procedures established to provide reasonable assurance of complying with applicable standards governing audits and attestation engagements. NAVAUDSVC performed an internal quality control review to determine if the organization was adhering to GAGAS related to audit documentation and evidence. Although minor deficiencies were noted, and subsequently corrected, the quality control team concluded that NAVAUDSVC was in compliance. Additionally, NAVAUDSVC currently has quality control reviews ongoing in the areas of audit supervision, fraud risk assessment and personally identifiable information.

BUSINESS TRANSFORMATION

In FY 2009, the DON continued to improve effectiveness and realize efficiencies in its business transformation efforts. As detailed below, the Under Secretary of the Navy was established as Chief Management Officer (CMO). The Department also established its Office of Business Transformation and initiated a Business Transformation Plan that will focus on five areas: (1) human resource management, (2) real property and installations lifecycle management, (3) weapons systems lifecycle management, (4) financial management, and (5) materiel supply and service management. Finally, the DON Enterprise Architecture (EA) has begun to depict business operations in order to identify opportunities for budget, finance, accounting and human resource integration and to inform business system investment. Goals of DON EA include to avoid duplicative information technology (IT) investment and to provide consistent support to critical decision making processes. Implementation of these combined efforts will strengthen the DON's business operations and provide a tighter focus on its business transformation.

DEPUTY UNDER SECRETARY OF THE NAVY / DEPUTY CHIEF MANAGEMENT OFFICER

Establishment of DON Business Transformation Leadership Structure: The DON implemented meaningful and sustainable changes in its business management by establishing the Under Secretary of the Navy as CMO. As the Under Secretary position was vacant for more than two years, one of the initial challenging tasks has been to re-introduce the Under Secretary position into DON daily decision making processes. As the DON's CMO, the Under Secretary of the Navy supervises the DCMO who is also the Director, Office of Business Transformation. The DON CMO chairs the Business Transformation Council. The Department established the DON Office of Business Transformation (OBT) on 31 December 2008 and is in the process of establishing operating processes and procedures for this office. The OBT's initial efforts have been focused in the following areas:

- Leveraging and integrating existing DON organizational processes to increase effectiveness and efficiency of DON business operations
- Identifying end-to-end business processes which add value to the DON, and
- Inculcating performance management and improvement processes throughout the DON.

ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER (ASN(FM&C))

Portfolio Management of Financial Management Systems – Systems Metrics (FMO): FMO oversees the DON Financial Management (FM) Automated Information Systems (AIS) portfolio. One of FMO's major challenges is to orchestrate the compliance of the DON management commands to various AIS requirements: (1) identification and completion of the DoD Information Technology Portfolio Repository (DITPR), (2) delineation of FM AIS in the DON's IT budget, and (3) ensuring that FM IT systems have met Federal Information Security Management Act (FISMA) requirements. FMO has developed monthly metrics to monitor AIS compliance with DITPR registration, Budget Delineation, and FISMA compliance. These

metrics – mostly in graphic form with supporting charts – highlight the status, per management command, in achieving required compliance levels. These metrics assist management commands to focus in on non-compliant systems and complete reporting requirements.

Portfolio Management of Financial Management Systems – Systems Transition Plan

(FMO): FMO issued a transition plan data call requiring DON management commands and activities to identify: (1) AISs used per location, and (2) migration strategies for each AIS. As a baseline for strategy, FMO provided commands a tentative Navy Enterprise Resource Planning (ERP) deployment schedule. After compiling the migration strategies, FMO laid out the DON FM transition plan, per AIS, per management command and activity. FMO compared the compiled plans and with Life-Cycle End Dates in DITPR, working with management commands to reconcile where required. Next, FMO compared the DON FM Transition Plan and Life-Cycle End Dates with the corresponding DON FM AIS budget. Budgets in excess of transition plan/life-cycle end dates were reduced to bring in alignment. The systems transition plan has validated systems used by each command, ensuring adequate funding is available and helping them to migrate to new systems and plan for Navy ERP implementation. With assistance from the DON Management Commands, FMO has used the Systems Transition Plan to improve the visibility of IT budgets identified in NITE/STAR from 49 to 75 percent. This 26 percent increase will further assist FMO in understanding their FM IT portfolio costs.

ASSISTANT SECRETARY OF THE NAVY, RESEARCH, DEVELOPMENT AND ACQUISITION (ASN(RD&A))

Successfully Executed Release 1.0 “Go Live” at NAVSUP – 1 October 2008: The Navy ERP Program initiated Release 1.0, Financial and Acquisition, "Go Live" to NAVSUP on 1 October 2008 and successfully completed its transition to NAVSUP in 25 days with 8,427 accounts activated. In addition, the following accomplishments were achieved: (1) Trained and Deployed to 6,222 users; (2) Roles assigned to 8,427 personnel; (3) a Data Load success rate of 99.78 percent; and (4) 338,023 data objects converted.

CHIEF OF NAVAL OPERATIONS (CNO)

Financial Management Group Award (CNRFC): In April 2009, the Financial Management Improvement Initiative Team from Commander, Navy Reserve Forces Command (CNRFC) was awarded the “Financial Management and Comptroller Team Award for Business Transformation,” an achievement award for business transformation excellence. CNRFC deployed a web-based version of the Fund Administration and Standardized Document Automation System (FASTDATA) System and continued a major restructuring of its echelon IV Comptroller Staffs. The combination of these two programs resulted in a cost avoidance of \$1.4 million. Both the Reserve Personnel Navy and Operations and Maintenance Reserve Shops finished FY 2008 obligated at 99.9 percent. CNRFC lowered unexpended and unobligated balances in the cancelled and expiring years, exceeding its FY 2008 Financial Index Efficiency Index Goal of 98.3 percent with a score of 98.87 percent.

OFFICE OF NAVAL RESEARCH (ONR)

Business Intelligence (BI) Dashboards: ONR lacked tools to measure/improve the effectiveness and efficiency of its 5,000+/year contracting actions. ONR relied on numerous and disparate sources of information to determine if its business processes were properly working. Many of these sources were not directly tied their systems, providing inconsistent and unreliable information. Thus, ONR leadership directed implementation of an enterprise-wide automation solution to take advantage of the current system information suite architecture. ONR developed and deployed two BI dashboards; one for procurement and one for FM. They are tied directly to ONR's business systems; display critical and accurate information, including processing cycle time metrics, in near real-time to all ONR internal users; and allow ONR to focus attention on process improvement opportunities. The FM dashboards won the DON Financial Management and Comptroller (FM&C) business transformation category best business practices.

PROCESS IMPROVEMENT

ASSISTANT FOR ADMINISTRATION TO THE UNDER SECRETARY OF THE NAVY (AAUSN)

Continuity of Operations (COOP) Plans: A FY 2008 DON material weakness revealed that headquarters and subordinate commands needed to develop and/or validate COOP plans, as is required to support DON's mission-essential functions. AAUSN's Office of Process Technology and Information (OPTI) is responsible for administering the overall Secretariat COOP Program and coordinating the overall requirements. The Director of OPTI reviewed all Secretariat subordinate organizations, validating the existence of signed COOP plans. In some cases, plans did not reflect organizational change updates or did not exist for recently added organizations. The appropriate corrective actions were taken to reach the goal of 100 percent compliance. Also during this assessment phase, OPTI:

- Implemented monthly solicitations to update COOP related information, which can occur on an as-needed basis if necessary,
- Provided annual and adhoc COOP Plan training for employees, and
- Conducted two COOP Plan Testing Events: (1) during Navy Golden Clipper exercises and, (2) during the Director of OPTI's yearly "walk-through" test for Secretariat organizations

ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER (ASN(FM&C))

Operations and Maintenance Budget Exhibit (OP-5) Improvement from Implementation of the OP-5 Automated Reporting System (FMB): The OP-5 exhibit displays the Operations and Maintenance (O&M) budget by line item and provides descriptions of changes in funding levels between fiscal years. The existing practice to prepare this exhibit was to provide DON's Budget Submitting Offices (BSOs) with a template that was populated manually. There was no automatic system in place to standardize formats and inputs; the process was time consuming

and had a high probability for error. Office of Budget (FMB)-1 personnel already used an automated system to produce OP-5s at the overall DON level. Further analysis revealed, with some minor programming changes, the internal system could also be used by BSOs. A successful test of two BSOs led to further implementation that will be Department-wide before the end of FY 2009. The implementation across the enterprise will standardize formats, increase data accuracy, reduce the likelihood for error and eliminate the variations experienced with manual preparation.

Appropriation/Fiscal Law Training for Fund Control Personnel (FMB): GAO conducted a review of Antideficiency Act processes within the DoD. Although the DON had excellent overall processes, a weakness identified throughout the DoD was the lack of training and knowledge associated with appropriation/fiscal law issues for fund control personnel. As a result, the Under Secretary of Defense (Comptroller) (USD(C)) agreed to modify the DoD Financial Management Regulation (FMR). FMB-5 personnel worked closely with USD(C) staff in the incorporation of the guidance in the FMR. After publication of the guidance, DON direction was issued requiring all BSOs to report on the number of fund control personnel as well as the currency of their appropriation/fiscal law training. DON has a high percentage of trained personnel with the remaining personnel to complete training no later than the end of FY 2009. Additionally, for those personnel only requiring refresher training, in accordance with the guidance, an opportunity for the training was provided in May 2009 during the DON day at the American Society of Military Comptrollers Professional Development Institute.

Navy Working Capital Fund (NWCF) Budgeting System (FMB): The DON Industrial Budget System (DONIBIS) legacy system had not been upgraded since its development in 1990, resulting in cumbersome queries and slow report generation. FMB implemented new budgeting web-based systems and applications to improve the timeliness, accuracy, availability, and level of detail of NWCF budget information. The upgraded DONIBIS provides the user with superior functionality and increased speed, thereby allowing the FMB4 analyst more time to perform budget analysis. For example, Ad Hoc queries allow the analysts to search individual data base codes and obtain information limited to a specific topic, greatly increasing the efficiency of the system. The upgraded system also is more user-friendly, allowing new analysts and trainees to spend less time learning the system and more time focusing on budget and execution within NWCF activities. The upgraded DONIBIS is superior in all respects to the Legacy DONIBIS and has saved the FMB 4 NWCF analysts time, which has been spent on execution and budget analysis.

Requesting Refunds for Unused Airline Tickets (FMO): If Navy's unused airline tickets go undetected, monies due to the government may go unclaimed. Refunds should be requested for unused tickets 30 days after the last date of travel has passed. Thus, the Navy has established and implemented a plan to biennially test a random sample of purchases to ensure 95 percent or more of tickets purchased were either used or had refunds requested for them. The initial test sample was taken from Navy Centrally Billed Account purchases made during the second quarter of FY 2008. The population was 100,101 and the sample was 1,069 purchases selected using a random number generator. The test results indicated one out of the 1,069 (0.10 percent) purchases was confirmed as unused with no refund requested. By implementing and executing the biennial test plan, the Navy has and will continue to successfully mitigate the possibility of

unused airline tickets going undetected and subsequently prevented monies due the government from going unclaimed.

ASSISTANT SECRETARY OF THE NAVY, RESEARCH, DEVELOPMENT AND ACQUISITION (ASN(RD&A))

Continuous Process Improvement (CPI): The Program Executive Office (PEO) Command, Control, Communications, Computers and Intelligence (C4I) business processes associated with the implementation, integration, and execution of CPI needed to be established and well-documented. Therefore, PEO C4I established an organizational structure and CPI instructions that linked strategy and execution to accelerate CPI into the workforce. Formalized instruction for CPI implementation was established by several policies and documents, including:

- A PEO C4I CPI/Lean Six Sigma (LSS) Reference Guide
- A PEO C4I LSS Leadership Team Charter
- LSS Advanced Green Belt Training and LSS Knowledge Management Repository
- A CPI Excellence Award

Overall, 100 percent of PEO C4I leadership were trained in LSS, 95 percent of the workforce was trained at the awareness level or higher, 100 percent of trained Green Belts (GBs) were being utilized on CPI projects, 30 percent of trained GBs were certified, more than 50 percent of the workforce were actively participating in CPI projects, and 33 LSS projects were completed (with another 56 in progress to be completed by the end of FY 2009).

CHIEF OF NAVAL OPERATIONS (CNO)

Navy Marine Corps Intranet (NMCI) Dormant Account Cleanups (SPAWAR): A large number of unneeded user accounts existed on the NMCI network, creating unnecessary security risks and additional costs for the DON. Through development of various scripts evaluating user account data on the NMCI network, the SPAWAR and PEO, Enterprise Information Systems (EIS)/PMW-200 Enterprise Account Management (EAM) Team identified potentially unneeded or dormant accounts. Dormant account lists were distributed to the Navy Echelon II and United States Marine Corps (USMC) NMCI Points of Contact (POCs) for validation on a monthly basis from May through September 2008. Navy Echelon II and USMC NMCI POCs returned accounts approved for deactivation, which the EAM Team then submitted for disabling under a PEO EIS/PMW-200 centrally-funded fixed-cost Contract Line Item Number (CLIN). In FY 2009, dormant account cleanups resulted in deactivation of 25,000 Navy and 25,000 USMC unclassified accounts. By using the centrally-funded CLIN for deactivations, the DON experienced a cost avoidance of \$900,000 (Navy) and \$550,000 (USMC). In addition, the Navy and USMC pay a “per account/per month” surcharge when the number of user accounts exceeds the contractually allowed allocation. As a result of the cleanup effort, the DON has not paid the excess account surcharge since June 2008.

Navy-Marine Corps Mobilization Processing System Upgrades (BUPERS): Navy Personnel Command (NPC) PERS-4G administers all functional project management aspects of the Navy-Marine Corps Mobilization processing System (NMCMPs): the Navy's premier mobilization/augmentation/demobilization order writing and tracking system. Upgrades include:

- Improved uptime and responsiveness of the classified Requirement tracking Module by standing-up BUPERS Online – Secret,
- Improved personnel tracking capabilities by adding new Expedition Combat Readiness Center (ECRC) tab for data specifically required by ECRC,
- Improved functionality by adding new capabilities for tracking requirements which are eligible for Joint Duty Credit, or which require embedded alternates, and streamlined order writing by sending members back to Parent Command as an I-Stop in group processing, and
- Improved visibility of the full spectrum of contingency requirements by adding Mobile Training Teams requirements.

NMCMPs was selected as the winner of the 2009 DON IM/IT Excellence Award for outstanding contributions toward transforming the Navy through Information Technology.

LSS/CPI Program Implementation at SPAWAR: In FY 2009, SPAWAR's LSS/CPI program demonstrated a discernible rise in its level of maturity. SPAWAR used a LSS approach to arrive at six strategic/high impact core value streams with the highest potential for readiness improvement and cost savings: (1) Acquisition Lifecycle, (2) System of Systems Performance, (3) Technical Authority and Systems Engineering, (4) Workforce Management, (5) NMCI/Next Generation Enterprise Network (NGEN) Transition Management, and (6) Navy ERP Business Process Implementation. One initiative, a Logistics Configuration Overhaul Planning (COP) Project, focused on reducing the errors between the COP entry data and integrated logistics support (ILS) products used for configuration management of C4I installations. The net results were process improvements achieving greater than 80 percent first pass yield between the COP and ILS documentation with cost savings (Type 2) of over \$921,000. To date in FY 2009, Team SPAWAR has validated LSS savings of \$17 million, with an additional \$9 million currently in the validation phase. Team SPAWAR is learning to focus on projects with strategic connections and the most significant benefits. For example, 164 projects in FY 2008 resulted in \$3 million in benefits compared to 100 projects in FY 2009 with a potential \$26 million in benefits.

Pharmaceutical Inventory and Dispensing (BUMED): A 2008 NAVAUDSVC report identified multiple internal control weaknesses at ten Navy medical treatment facilities. Since reporting the issue as an Item to be Revisited in their FY2008 SOA, BUMED implemented multiple internal control enhancements and emphasized the need for internal controls within the pharmacy area. In the first and third quarters of FY2009, Navy Medicine assessed improvement of pharmacy controls at the command level. Specific control improvements include:

- Pharmacy Guidance revision at BUMED and command level
- 100 percent compliance with Expired Medications storage requirements
- Pharmacy Inventory Management Standard Operating Procedures published

- 100 percent compliance with Weekly Inventory of Schedule II Medications requirements
- Estimated \$1.2 million in savings due to increased use of generic drugs

Navy Medicine also developed control measures for a \$500 million Navy Medicine Pharmaceutical operation aimed at providing standardization in pharmaceutical inventory. The implementation efforts also addressed Pharmaceutical Reverse Distribution program deficiencies in managing over \$30 million in credits. The plan is phased across 3 years and spans across 24 hospitals and clinics (nearly 75 pharmacy locations around the world). These efforts will put essential medical resources in the hands of providers while improving quality of care.

<h2 style="text-align: center;">COMMANDANT OF THE MARINE CORPS (CMC)</h2>

Improved Personnel Identification/Anti-Terrorism/Force Protection: Marine Corps Base (MCB), Quantico is an “open” installation, as it is the only military installation in the United States that houses a town within its boundaries. A non-military person with a seemingly valid ID could simply state they are going to “Quantico Town” and the military police would permit access. Yet, random checks of personal identification by military police at access points for MCB, Quantico is a tedious, time consuming process. During checks, an approaching vehicle would be signaled to stop and the military police would ask for photo ID. In August 2008, MCB, Quantico military police implemented MOBILISA scanners – mobile, hand-held wireless devices that read any type of bar code or magnetic strip like on a passport, military identification card, or driver’s license in three seconds. The MOBILISA scanner is an anti-terrorism measure now in use at all MCB, Quantico gates. Since implementation, military police have thwarted many offenders, as the scanners pulls information from various databases: the FBI’s most wanted list, the National Crime Information Center, national and state police databases, and all military services’ law enforcement networks and sexual offender databases. The majority of offenses are drivers with suspended state driver’s license.

Reorganization and Process Improvements for the Internal Review Function: The internal review function at Marine Corps Combat Development Command (MCCDC) was assessed to determine how the process of personnel assignment and scheduling of reviews could be improved to increase productivity and quality through more efficient use of resources. The function was reorganized through establishment of teams. Each team was assigned specific areas of responsibility for internal review of both appropriated and nonappropriated funds. Personnel were assigned to respective teams for at least one year, allowing team members to become more efficient in review of their subject matter. A stand down was enacted so that each team could brain storm assigned areas and provide input on process improvement. This resulted in every team updating or establishing Standard Operating Procedures (SOPs) for each process, as well as rewriting/updating all inspection checklists. Criteria and checklists were updated to be consistent with current regulations, and brought into line with the standard business processes. Funding was allocated for all personnel to obtain training to further increase efficiency within the internal review function. These process improvements resulted in increased numbers of internal reviews scheduled and accomplished, as well as more efficient and effective reviews due to increased expertise/knowledge base of personnel in assigned areas. Overall improvement of personnel morale was notable.

Communications and Information Systems (CIS) Telephone Intrusion Detection System, MCB Camp Pendleton: By assessing internal controls and conducting a risk analysis of telephone availability at MCB Camp Pendleton Communications and Information Systems (CIS), repeated violations and outages in the Del Mar (21 Area) were identified. To strengthen internal controls, an intrusion detection system was needed to identify an interruption of service. This system would be programmed and made accessible by the appropriate personnel allowing for an immediate response to an outage alert. CIS Telephone Division installed an intrusion detection system to alert personnel in the event of an outage or connectivity loss in 21 Area. By performing an immediate alert personnel can be disbursed in a timely manner allowing for increased responsiveness and assessment of the outage. Upon assessment of the outage, restoration requirements are determined. In the event the outage occurred due to malicious intent, authorities are notified expeditiously. In the event an outage was unintentional, restoration of services are expedited. The increased internal control provides increased monitoring in an effort to mitigate risk and notification that allows for increased responsiveness. Responsiveness expedites restoration of services, increases availability of connectivity and telephone services to the customers ensuring communication capabilities are intact to support the warfighter and supporting organizations.

NAVAL CRIMINAL INVESTIGATIVE SERVICE (NCIS)

Control Assessment of Select Investigative Categories: Existing internal controls raised concerns over the quality and thoroughness of NCIS' felony criminal investigations for the DON. In response, NCIS management directed an agency-wide assessment of all ongoing death and rape investigations. Senior management teams from each of NCIS' 14 geographic field offices conducted reviews of all pending death and rape investigations. In addition, a NCIS Headquarters team reviewed a sample of sexual assault investigations. The assessments identified weaknesses in the case review process conducted by supervisory special agents on a monthly basis. The lessons learned were documented and disseminated and additional training and mentoring was provided to the supervisory special agents. The NCIS Inspector General is conducting a review of internal controls associated with criminal investigations to determine if additional controls are warranted.

OFFICE OF NAVAL RESEARCH (ONR)

Grants Management and Funding Document Amendments: After transitioning to an Oracle e-Business suite in 2006, ONR discovered their contract and grant management business processes were not part of the new business solution and that the automated batch processing function for grant increments was no longer available. ONR processes 4,000 to 5,000 grant actions per year; therefore, individual processing of each grant increment significantly increased workload and delayed grant awards. The time to process Financial Management (FM) funding documents was also excessive. A LSS project was initiated to re-constitute automated batch processing of grant increments, and significantly reduced cycle time and increased grant increment through-put. To reduce FM document cycle time, two additional LSS projects were initiated. The first analyzed amendment workflow process and determined that the mean processing cycle time was 29 days from program officer submission until execution by the comptroller, and eliminated unnecessary steps and document hand-offs. The second project

automated the creation of the amendment, reducing the overall touch time and eliminating the need for hardcopy processing. These efforts reduced the mean cycle time to 4 days and increased internal controls over the application of funds on the FM documents.

Electronic Management of Grant Proposals (e-Proposal): Each year, ONR receives thousands of grant proposals from various offerors. In the past, submissions were in various venues including hardcopy, disc, e-mail, etc.; managing them required an inordinate amount of time on the part of program officers and Acquisition Department personnel. In FY 2009, ONR standardized its grant proposals receipt process and employed the e-Proposal solution tool, which enables electronic receipt and management of grant proposals submitted through the government's Grants.gov portal. This software process improvement tracks the grant proposal from receipt, to assignment, to evaluation, through its final disposition. It eliminates the need for rekeying of data; and provides readily accessible attribute data and metrics to evaluate and improve process efficiency. With the control metrics on the process in place, in FY 2009 ONR mandated that all grant proposals and applications for assistance be submitted through Grants.gov. As of 30 June 2009, 1,241 grant proposals had been processed through e-Proposal.

Broad Agency Announcement (BAA): The BAA is a major aspect of ONR's procurement process. It is used to solicit technical proposals or white papers for research efforts from the general public, academia and the commercial sector, which generate the award of research contracts, grants, and agreements. The manual process of creating, reviewing, and posting BAA's on public websites was cumbersome and slow, with a wide variation across departments which caused unnecessary rework and delays. A LSS black belt project team was established and determined that the mean cycle time for issuance of a BAA was 49 days. The project resulted in: deletion of unnecessary reviews; elimination of hardcopy processing; improved controls for tracking compliance; and increased effectiveness and efficiency of business operations. Initial data indicates that change in the BAA process has occurred and the mean cycle time has been reduced to 30 days (61 percent). Further reductions are expected over time.

OFFICE OF PROGRAM APPRAISAL (OPA)

Document Management and Routing within OPA: OPA's internal information routing process took widely varying times – from one to thirty days – resulting in poor tracking of documents, lack of predictability in total work in progress, and poor prioritization of tasks at hand. This resulted in untimely submissions of documents to the SECNAV and numerous frustrating man-hours spent unnecessarily tracking documents down, checking on their progress in the routing process, and re-submitting documents. The lack of standard procedures led to an inequitable division of duties within the administrative team with an especially large dependency on the Yeoman. OPA chartered a team to assess and to improve the document routing process. The OPA team conducted numerous root cause analyses, including XY matrices, fishbone diagramming, and failure modes effects analyses (FMEA), to determine why the process is inadequate. Using the FMEA, OPA built a new process that provides reasonable assurance that the potential for waste and mismanagement, as identified in the FMEA, will not occur.

Proper Accounting and Management of IT Assets: OPA underwent massive personnel growth – fourfold – in the past year, consequently increasing its IT requirements. The large number of new IT requirements and the twice turnover of the Assistant Contract Technical Representative (ACTR) during this period made IT accounting and management a priority for examination. The system in place to order, track, and inventory IT assets required for OPA staff was audited and found to have low to moderate risk for fraud, waste, and mismanagement. The key stakeholders collaborated and developed improved procedures for validating requirements, ordering, tracking, and accounting for IT assets in OPA. Separation of responsibilities and authorities were made and assigned to further reduce risk of fraud, waste, and mismanagement. The entire staff has been informed of the new procedures and OPA now has an improved system in place.

DON INTERNAL CONTROLS OVER FINANCIAL REPORTING

ASSISTANT SECRETARY OF THE NAVY, FINANCIAL MANAGEMENT AND COMPTROLLER (ASN(FM&C))

Reconciliation of Defense Finance and Accounting Service (DFAS) Documentation of Internal Controls over Financial Reporting (ICOFR) (FMO): DoDI 5010.40 and accompanying annual guidance require DoD components to document their financial reporting processes and their associated internal controls. The DON had been receiving documentation from the Defense Finance and Accounting Service-Cleveland (DFAS-CL) and including it as part of the overall ICOFR documentation, without extensive analysis or verification. The DON has added a team member to the Federal Managers' Financial Integrity Act (FMFIA) team to specifically review process documentation submitted by DFAS-CL and note discrepancies between it and that prepared by the DON. To date, the FMFIA team has reviewed process documentation for Military Pay, one of 16 segments for which DFAS-CL prepared documentation. Comments and questions have been sent to the ICOFR point of contact at DFAS-CL and the appropriate subject matter experts are involved with resolving discrepancies. Preliminary review of seven other segments is on-going.

DON Financial Improvement Program (FIP) (FMO): The DON FIP is a course of action directed towards achieving an unqualified audit opinion for the DON Annual Financial Statements. A dedicated team within the FMO maintains the DON FIP and coordinates execution of the plan. The DON FIP team's primary objectives are the identification and implementation of corrective actions to resolve "known" deficiencies related to the DON Annual Financial Statements and the preparation, documentation, and validation of processes, data, and systems that materially affect the DON Annual Financial Statements. The FIP team's 2009 accomplishments include:

- *Internal Controls Testing Methodology* – Internal controls over financial reporting are the primary mechanism for an agency to prevent and/or detect misstatements in financial reporting. Auditors also use internal control testing results as a tool to determine the risk of misstatement. The DON FIP required a testing methodology the assessed internal controls, as well as, evaluated the financial statement line item balances in relation to the

associated management assertions. FMO developed a methodology for evaluating internal controls in accordance with Government Accountability Office (GAO) guidance. The DON FIP methodology aligns with OMB requirements for evaluating internal controls for compliance with Circular A-123. For all segments/business processes, FMO has identified financial reporting inherent risks and identified the associated control to mitigate risk. The DON FIP approach for evaluating controls in each segment is detailed in the associated Testing Strategy Memo. For each control, the Testing Strategy Memo includes the acceptable minimum sample sizes based on the associated population per the GAO Financial Audit Manual, step by step testing procedures, and required documentation to complete testing. FMO's internal control testing methodology is designed to assist the Navy in ascertaining "audit readiness", as well as meet management's assertion requirements as part of A-123.

- *Assertion of Funds Receipt and Distribution* – The DON process for reporting appropriations received from Congress and OSD was not certified as satisfying Federal financial and accounting reporting requirements. FMO asserted audit readiness of approximately \$162 billion reported as Appropriations Received per the Statement of Budgetary Resources (SBR) as of September 30, 2008. The assertion process verified the completeness, accuracy, existence, and appropriate disclosure of the general ledger balances and financial statement line items associated with appropriations received. Audit readiness was primarily determined through substantive testing procedures. FMO noted internal control deficiencies, but determined the control failures did not impact the associated balances.
- *Assertion of Contingent Legal Liabilities* – In February 2006, the Department of Defense Inspector General (DoDIG) noted DoD's process for evaluating pending litigation, claims, and assessments, and reporting of contingent legal liabilities did not sufficiently satisfy the intent of Federal financial and accounting reporting requirements. FMO asserted audit readiness of approximately \$1.6 billion of "Other Liabilities", as well as \$16.5 billion in related note disclosures. The assertion process verified that contingent liabilities associated with existing and pending litigation reported on the Navy's financial statements were complete, accurately valued, obligations of the Navy, and appropriately disclosed. Audit readiness was determined by evaluating the design and effectiveness of identified key controls, as well as performing limited substantive procedures over the related general ledger account balances.
- *Assertion of Environmental Liabilities (EL) Associated with Defense Environmental Restoration Program (DERP), Other Environmental Liabilities (OEL) and Base Realignment and Closure (BRAC)* – In October 2008, the DON received an unqualified audit opinion on environmental liability related to ships and submarines. In March 2009, the remaining EL sub-processes were asserted as audit ready. The NAVFAC DERP asserted the audit readiness of approximately \$3.2 Billion in EL. The DERP portion represents the cost to correct legacy cleanup sites that are funded from the Environmental Restoration Accounts. The NAVFAC OEL Program asserted the audit readiness of approximately \$800 Million in environmental liabilities. The OEL Program represents the cost to remediate cleanup sites associated with ongoing operations that are not

eligible for funding from the DERP Program and are not associated with BRAC activities. The BRAC-EL Program asserted the audit readiness of approximately \$1.7 Billion in environmental liabilities. The BRAC portion represents the cost to address environmental cleanup at installations that are or will be closed under the congressional mandated Base Realignment and Closure legislation. The assertion process verified that the underlying information upon which environmental liabilities are based is complete, accurate, and the associated liability is properly disclosed. For each portion, audit readiness was determined through the test of design and operating effectiveness of the key controls identified, and results were analyzed to identify weaknesses and impediments to success.

- *Navy Working Capital Fund (NWCF) Audit Readiness Condition* – The NWCF is undergoing financial improvement efforts in order to assert audit readiness. The NWCF met a number of milestones this year, but additional issues remain. Corrective actions are in place for outstanding issues. The DON implemented Navy ERP Spiral 1.0 at Naval Supply Systems Command (NAVSUP) in October 2008. The implementation is a core component of NAVSUP audit readiness. Additional implementations will take place beginning in October 2010. The DON completed NAVAUDSVC Agreed-Upon Procedures (AUP) at the Military Sealift Command (MSC). Completion of the engagement identified a number of weaknesses, including MILSTRIP and Internal Use Software processes. Mitigation strategies have been developed and MSC is moving toward audit for September 30, 2009.

Funds Control, Distribution, and Reporting (FMB): In FY 2009, FMB developed and/or enhanced their internal funds control, distribution and reporting processes. These processes facilitate compliance with legal and administrative restrictions on program execution, or provide greater visibility as to the status of program execution. Additionally, these processes must be designed to ensure that funds are executed consistent with enacted appropriations, approved apportionments, and allocations received. For the Department, the Program Budget Information System (PBIS) is the single central repository of fund control data. FMB completed reviews, changes and/or updates in seven distinct areas, all affecting PBIS. They are: (1) General Fund Certification Procedures, (2) Appropriation Control Reports, (3) Reprogramming Status Report, (4) Realignment Module, (5) Realignment Reconciliation Tool, (6) Automation of Working Capital Fund Allocations, and (7) Obligation Phasing Plans. For example, FMB analysts had been recording Office of Management and Budget (OMB) / Office of the Secretary of Defense (OSD) apportionment/allocation controls on Excel spreadsheets, in order to identify potential over allocation of DON resources. This manual process allowed for input error which could result in a failure to identify an over allocation of funds. To address this potential risk, an “Appropriation Control Check” report was developed to compare actual DON allocation, OMB apportionment and OSD allocation information from other areas of PBIS, and to produce an error message when a proposed adjustment would exceed those controls.

Overseas Contingency Operations Cost of War (CoW) Reporting Improvement (FMB): Since the September 11, 2001 terrorist attacks, and the subsequent authorization of Supplemental funding, there has been steadily increasing interest from the Congress, GAO and DoD on the accuracy and validity of CoW reporting. CoW reporting has evolved from a relatively simple

estimation process into a detailed database report and management information tool. The DON uses multiple accounting systems with unique characteristics. These systems inherently lack both data commonality and application practices, challenging the ability to incorporate execution data into the current Overseas Contingency Operations (OCO) CoW reports. Thus, the CoW Improvement Team analyzed the CoW estimation and reporting methodologies. Implementation is complete, and its corresponding guidance on reporting improvements was issued guidance to all BSOs. This guidance summarizes best practices and data commonalities; standardizes cost reporting and modeled methodologies; and ensures reliable, repeatable, and defensible output. Further, validation testing has commenced to monitor compliance with the guidance.

CHIEF OF NAVAL OPERATIONS (CNO)

Assertion of Environmental Liabilities (EL) at NAVSEA: In 2007, NAVSEA was identified as the responsible organization for estimating the environmental and non-environmental (other) liabilities in the disposal of its conventional weapons (non-nuclear), its nuclear-powered active and inactive vessels, and its spent nuclear fuel. In November 2008, the DoDIG finalized its “Attestation of the Department of the Navy’s Environmental Disposal for Weapons System Audit Readiness Assertion” and reasonably determined that of the reported \$13.1 billion in EL, 99.84 percent was accurately reported. The EL process now allows the DON to present in its financial statements, an accurate and auditable estimated future probable environmental and non-environmental liability for all ships.

COMMANDANT OF THE MARINE CORPS (CMC)

Financial Statement Audit of the Statement of Budgetary Resources: The Chief Financial Officers Act of 1990 (PL 101-576) (CFO Act) requires that each Federal Agency improve its system of accounting, financial management, and internal controls so that issued financial information is reliable and fraud, waste, and abuse is deterred. To date, no combatant component of the DoD has achieved audit readiness for a full financial statement. In accordance with CFO Act requirements, the Marine Corps has been authorized to proceed with an independent, external audit of its Statement of Budgetary Resources for FY 2010. After several years of “discovery and correction” of financial policy and procedure, financial processes and documentation, and internal controls and system improvements, the Marine Corps has demonstrated the potential to sustain a successful financial statement audit. With concurrence from the DoD CFO, The Honorable Robert F. Hale, and via the support of DoDIG and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Financial Improvement and Audit Readiness Directorate, the Marine Corps is spearheading financial improvement and audit readiness efforts to the benefit of an agency that has long faced significant challenges in inciting confidence in the manner with which federal resources are efficiently and effectively expended.

(TAB B-1)

LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
N/A		

Uncorrected Weaknesses Identified During Prior Periods:

Title	<u>Correction Qtr & FY Date</u>			Page #
	Year First Reported	Per Last Annual Statement	Per This Annual Statement	
<u>Category: Major Systems Acquisition</u> Earned Value Management (EVM) for Littoral Combat Ships (LCS) 1 and 2	FY 2008	1 st Qtr, FY 2009	1 st Qtr, FY 2011	B-2-1
<u>Category: Property Management</u> Management of Communications Security (COMSEC) Equipment	FY 2006	1 st Qtr, FY 2009	2 nd Qtr, FY 2011	B-2-4

Corrected Weaknesses Identified During All Periods:

Title	Year First Reported	Page #
<u>Category: Supply Operations</u> Marine Corps Small Arms Reporting	FY 2008	B-3-1
<u>Category: Information Technology</u> Contingency Plan (CP) and CP Testing Management	FY 2008	B-3-3
<u>Category: Procurement</u> Oversight of Earned Value Management (EVM) for Naval Acquisition Programs	FY 2007	B-3-5

Corrected Weaknesses Identified During All Periods: (Continued)

Title	Year First Reported	Page #
<u>Category: Communications and/or Intelligence and/or Security</u> Safeguarding Personally Identifiable Information	FY 2007	B-3-7
<u>Category: Communication and/or Intelligence and/or Security</u> Continuity Planning Program	FY 2006	B-3-10
<u>Category: Procurement</u> Management and Oversight of the Department of the Navy's Telecommunication Program	FY 2004	B-3-13

(TAB B-2)

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Earned Value Management (EVM) for Littoral Combat Ships (LCS) 1 and 2:* At Assistant Secretary of the Navy, Research, Development and Acquisition (ASN (RD&A)) request, following significant program cost growth, the Naval Audit Service (NAVAUDSVC) completed an audit of the use of EVM on the LCS 1 (contract N00024-03-C-2311) and LCS 2 (contract N00024-03-C-2310) in January 2008. NAVAUDSVC found that “...Overall, EVM was not effectively implemented on the LCS program, an ACAT 1D Program, for either of the ships being built (the “Independence” and the “Freedom”).” ASN (RD&A) concurred and believes that implementation of the NAVAUDSVC recommendations is appropriate. ASN (RD&A) agrees that effective EVM System implementation and oversight is a critical component of overall management controls for the LCS program and all other major Navy acquisition programs. The NAVAUDSVC recommendations are presented as correction milestones for this material weakness.

Functional Category: Major Systems Acquisition

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (DASN) Ship Programs

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 1st Qtr, FY 2009

Targeted Correction Date in Last Year’s Report: 1st Qtr, FY 2009

Current Target Date: 1st Qtr, FY 2011

Reason for Change in Date: The Defense Contract Management Agency (DCMA) Center of Excellence, working with the Navy, is aware of Marinette Marine Corporation’s (MMC) need to have their EVM System (EVMS) validated. From Oct 2008 through March 2009, during the construction of LCS 1, MMC did not have Earned Value requirements on work being completed on LCS 1 at the shipyard. LCS 1 has subsequently been launched and turned over to the Navy.

On March 23, 2009, the next LCS was awarded to Lockheed Martin (LM). MMC has begun work on this contract, and EVMS requirements have started again. DCMA Earned Value Center plans to conduct an EVMS Progress Assistance Visit (PAV), the first step in the DCMA certification process, on October 5-9, 2009.

For LCS 2/Austal, the Navy awarded a contract for a second ship on May 1, 2009 to General Dynamics (GD). The contract requires Austal to achieve EVMS certification in a timely manner within a period not to exceed twenty-eight months from the date of the award. Audit and validation review of Austal's EVMS has been requested but is not yet scheduled.

Validation Process: The command will require periodic updates from Naval Sea Systems Command (NAVSEA) and Program Executive Office (PEO) Ships on the progress of completing corrective actions. The final recommendation will require a DCMA validation review to provide assurance that the contractors' EVMS are fully compliant.

Results Indicator: Upon completion of the required actions, the contractor will have an EVMS certified by DCMA. This will enable the contractor to accurately report cost and schedule status against a Performance Measurement Baseline and allow the government to closely monitor contract performance and take corrective actions as necessary. Additionally, certification of the contractor EVM Systems will have benefits on potential future LCS construction contracts at these contractors. Accurate prediction of contract Estimate at Completion (EAC) with the EVMS reporting is a defined performance measure to determine successful completion of the proposed remedial effort.

Source(s) Identifying Weakness: NAVAUDSVC Report N2008-0015, "Earned Value Management for the Littoral Combat Ship "Freedom" Contract N00024-03-C-2311," dated January 7, 2008.

NAVAUDSVC Report N2008-0038, "Earned Value Management for the Littoral Combat Ship "Independence" Contract N00024-03-C-2310," dated June 12, 2008.

Major Milestones to Include Progress to Date:

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Conduct Comprehensive EAC (LCS 1 and 2)
Completed	Conduct bottom up schedule review (LCS 1 and 2)
Completed	Approve an Over Target Baseline (OTB) based on EAC and schedule review (LCS 1)
Completed	Require Contractors provide a corrective Plan of Actions and Milestones (POAM)
Completed	Conduct an Integrated Baseline Review of MMC's OTB. (LCS 1)
Completed	DCMA, Supervisor of Shipbuilding (SUPSHIP), Defense Contract Audit Agency (DCAA), MMC Implement Joint Surveillance Plan.
Completed	Conduct an Integrated Baseline Review of the Austal OTB. (LCS 2)

Completed	DCMA and SUPSHIP monitor implementation of General Dynamics (GD)/Austal POAM.
Completed	Request DCMA conduct validation review of GD/Austal EVMS.
Completed	DCMA, SUPSHIP, DCAA, GD/Austal Implement Joint Surveillance Plan.
Completed	DCMA and SUPSHIP Monitor Implementation of LM/MMC POAM

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2010	Navy Center for EVM and DCMA conduct a validation review to provide assurance that the LM/MMC EVM System is fully compliant

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Navy Center for EVM and DCMA conduct a validation review to provide assurance that the GD/Austal EVM System is fully compliant

(TAB B-2)

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Management of Communications Security (COMSEC)*

Equipment: Naval Audit Service (NAVAUDSVC) conducted an audit in 2006 of the Navy management of communications security equipment. The audit found Navy procedures lacking and listed a number of recommendations to correct the problems.

Functional Category: Communications and/or Intelligence and/or Security

Component: Department of the Navy

Senior Official in Charge: Director, Warfare Integration (N6F)

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 3rd Qtr, FY 2007

Targeted Correction Date in Last Year’s Report: 1st Qtr, FY 2009

Current Target Date: 2nd Qtr, FY 2011

Reason for Change in Date: Further audit and scope of project revealed need for more time.

Validation Process: All corrective action(s) are certified by the responsible commands upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, or internal control reviews.

Results Indicator: Results are considered satisfactory when there is complete accountability of COMSEC equipment.

Source(s) Identifying Weakness: Naval Audit Service Report N2006-0035, “Management of Communications Security Equipment,” dated July 17, 2006.

Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Commandant of the Marine Corps (CMC) Staff and Chief of Naval Operations (CNO) Staff completed investigation of missing COMSEC Equipment.
Completed	CMC Staff and CNO Staff established written guidelines to address identified internal control weaknesses.

Completed	CMC Staff and CNO Staff strengthened and enforced their internal controls over COMSEC Equipment at the owning activities with accurate records and on-site verification.
Completed	CMC Staff and CNO Staff verified complete accountability of COMSEC Equipment.
Completed	OPNAVINST 5239.1C signed 18 August 2008 and published.
Completed	Revise Electronic Key Management System (EKMS) Manager Training Course
Completed	Establish a Plan of Action and Milestones to expedite reconciliations within CT-1 and determine manning and funding resources

B. Planned Milestones through Fiscal Year 2009:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2009	Conduct full revision of all COMSEC Documentation
4 th Qtr, FY 2009	Enforce and Oversee Completion of Mandatory CT-1 Accountability and Reconciliation Training at the Local level
4 th Qtr, FY 2009	Establish Navy Enlisted Classification for COMSEC Account Manager

C. Planned Milestones Fiscal Year 2010 and Beyond:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2010	Reconcile Common Tier One (CT1) Accounts
2 nd Qtr, FY 2011	Resolve all CT-1 Accounting Errors

(TAB B-3)

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

“Identified During Prior Periods”

Title and Description of Issue: *Marine Corps Small Arms Reporting*: Inadequate controls over small arms in-transit shipping transactions as a result of general inattention to required procedures at all levels in the shipping process, as well as insufficient management oversight, did not ensure that the process was functioning as intended.

Functional Category: Supply Operations

Component: Headquarters Marine Corps

Senior Official in Charge: Commanding General, Marine Corps Logistics Command (MARCORLOGCOM)

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 1st Qtr, FY 2008

Targeted Correction Date in Last Year’s Report: 1st Qtr, FY 2009

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Process: Validation will be accomplished by a review of the accountability process and compliance with published directives through on-site verification, quality assurance reviews and internal control reviews.

Results Indicator: No more than 500 delinquent in-transit weapons.

Source(s) Identifying Weakness: Naval Audit Service Interim Audit Report No. N2008-0008, "Marine Corps Small Arms" dated 23 Nov 2007

Completed Milestones:

Date:

Milestone:

Completed

MARCORLOGCOM reconciled and properly reported all 813 delinquent in transit shipments (contained 13,889 weapons) identified in the Naval Audit Service Report.

Completed	HQMC I&L issued several Marine Corps messages and a Commandant of Marine Corps White Letter addressing policy issues and weaknesses beginning 1 st Qtr FY08 through 3 rd Qtr FY08.
Completed	Fleet Support Division (FSD) Warehouse Automated Information Technology Initiative, formally called the Small Arms Serialization Program (SASP), implemented the tracking and visibility of small arms. This program eliminates the manual serialization verification process.
Completed	MARCORLOGCOM met baseline goal of no more than 500 delinquent in-transit weapons for the last twelve month reporting period. Naval Audit Service has validated that the prior period weakness has been corrected.

(TAB B-3)

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

“Identified During Prior Periods”

Title and Description of Issue: *Contingency Planning (CP) and CP Testing Management.* In 2008, the Department of Defense Office of the Inspector General (DoD IG) found significant inaccuracies across DoD in reporting status of contingency plans and their required annual exercising. In general, some plans could not be located, were not individually approved by a person in authority, or their testing documentation was neither proper nor properly recorded in the Department of Navy (DON) variant of the DoD Information Technology Portfolio Repository (DITPR-DON).

Functional Category: Information Technology

Component: Department of the Navy

Senior Official in Charge: DON Chief Information Officer

Pace of Corrective Action:

Year Identified: FY 2008

Original Targeted Correction Date: 4th Qtr, FY 2009

Targeted Correction Date in Last Year’s Report: 4th Qtr, FY 2009

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Indicator: Department of the Navy Chief Information Officer (DON CIO) message 291600Z FEB 2008 directed Navy Echelon-2 command Information Officers (IOs) to complete a one time data quality audit of all DITPR-DON registered systems for which certification and accreditation (C&A) is required. Our internal audit requires the following:

1. Audit each appropriate system for accurate reporting in DITPR-DON for contingency plan approval and exercise date.
2. Command IOs review documentation for CP and Exercise approval requirements specified in our message.
3. Command IOs audit mission criticality and mission assurance levels for each appropriate system reported in DITPR-DON against those stated by the milestone decision authority.
4. Command IOs document their audit evaluations and report completion to the respective DON deputy CIO (Navy and Marine Corps) for forwarding to DON CIO by the end of FY 2008.
5. For outstanding deficiencies from the audit, the system owner must submit a Plan of Action and Milestones (POA&M) to the Command IO and Operational Designated Accrediting Authority for forwarding to DON CIO.

Results Indicator: 100% compliance with DoD and DON CIO contingency plan guidance specified in DON CIO 291600Z FEB 08, and overall adherence to the FY 2008 FISMA report Guidance of May 12, 2008.

Source(s) Identifying Weakness: DoD IG Audit D-2008-047, February 5, 2008

Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	<p>Issued Department of the Navy Chief Information Officer (DON CIO) message 291600Z FEB 2008 providing CP requirements and requiring the following actions:</p> <ul style="list-style-type: none">○ Program Managers of deficient systems submit to DON CIO via the respective Operational Designated Accrediting Authority a Plan of Action and Milestones (POA&M) for correction of all deficiencies identified in the audit.○ Command IOs audit all systems for: (1) Approved system contingency plan issued. (2) Contingency Plan exercising is accomplished, approved, and properly recorded. (3) Correct mission criticality and mission assurance categories have been assigned and properly recorded.○ Command IOs submit audit results to DON CIO via the DON Deputy CIO (Navy or Marine Corps) by Sept 30, 2008. <p>The required POA&Ms have been submitted and approved by DON CIO.</p>
Completed	DON CIO received audit reports and directed necessary corrective action.
Completed	Command IOs documented audit evaluations and reported completion to the respective DON Deputy CIO (Navy or Marine Corps) for forwarding to DON CIO
Completed	System owner POA&Ms submitted to the Command IO and Operational Designated Accrediting Authority forwarded to DON CIO.
Completed	DON CIO reported completion of all outstanding audit deficiencies to OSD and DOD IG.

(TAB B-3)

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

“Identified During Prior Periods”

Title and Description of Issue: *Oversight of Earned Value Management (EVM) for Naval Acquisition Programs:* This material weakness consolidates the material weaknesses from three prior EVM audit reports from FY 2000 through FY 2006. All reports identify systemic weaknesses in policies and procedures regarding the implementation and oversight of EVM within the Department of Defense (DoD), which has an overall impact on the Department of Navy (DON) EVM Program.

Naval Audit Service has advised and requested Under Secretary of Defense (Acquisition Technology and Logistics) (USD(AT&L)) establish:

1. Policy and procedures clearly identifying roles and responsibilities of all organizations involved in effectively implementing, coordinating, and overseeing EVM within DoD.
2. Uniform policy outlining enforcement actions to be taken when Program Managers and contractors do not comply with EVM policy and procedures and contractual requirements.

Functional Category: Major Systems Acquisition

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy, Research Development and Acquisition

Pace of Corrective Action:

Year Identified: FY 2007

Original Targeted Correction Date: 4th Qtr, FY 2008

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2008

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Process: The Center for Earned Value Management (CEVM) will sample the contracts of several Acquisition Category One (ACAT 1) programs to ensure that proper EVM requirements are in place and are in accordance with DoD and Navy policy. The review will also ensure that adequate analysis is conducted on those contracts. This analysis standard will be defined in a policy memorandum planned to be signed out in the first quarter of FY 2008.

Results Indicator: An annual sampling of ACAT 1 programs indicates 80% or greater compliance with DoD and Navy policy.

Source(s) Identifying Weakness:

- Naval Audit Service (NAVAUDSVC) Report N2005-0056, “Earned Value Management for the DDG-51 Arleigh Burke Class Destroyer,” dated August 31, 2005
- NAVAUDSVC Report N2004-0057, “Earned Value Management for the Extended Guided Munition Program,” dated June 16, 2004
- NAVAUDSVC Report N2003-0045, “Earned Value Management at Program Executive Office at Anti-Submarine Warfare Assault and Special Missions Program,” dated May 2, 2003

Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	ASN (RD&A) established the Department of Navy Center of Excellence for Earned Value Management (the CEVM is currently staffed by a Director and contractor support and interviews are being conducted to fill four vacancies within the Center).
Completed	USD (AT&L) signed out the necessary policy and procedures clearly identifying the roles and responsibilities and defining the accountability for the key players such as Defense Contract Management Agency, Defense Contract Audit Agency, contractors, and Components.
Completed	CEVM fully staffed.
Completed	Minimum Analysis Standards memorandum published.
Completed	EVM toolkits made available to program managers.
Completed	CEVM mobile training team established.
Completed	Sampling of contract requirements and analysis and assess results identified the need for closer EVMS development with regard to Littoral Combat Ship construction, which became the focus of a new FY 2008 material weakness; “Earned Value Management for Littoral Combat Ships 1 and 2.”

Note: CEVM conducted a review of contractual requirements and found that though there were still some issues, things appeared to have improved on the more recent contracts, which could indicate that the toolkit may have had some effect. Additionally, some of the non-compliant issues we saw have been/are being corrected or are pursuing formal waivers. ASN(RD&A) views all actions identified as closed.

(TAB B-3)

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

“Identified During Prior Periods”

Title and Description of Issue: *Safeguarding Personally Identifiable Information (PII)*: Since October 2006, the Department of the Navy (DON) reported over 97 incidents involving the loss of Personally Identifiable Information, impacting over 27,000 Navy and Marine Corps personnel, including retirees, civilians, and their dependents. Significant loss of PII stems from loss or theft of laptop computers and removable data storage devices, unprotected data on websites, and improperly sent email; all of which are primarily caused by human error. The loss of PII erodes confidence in the DON’s ability to protect information has the potential to negatively impact employee morale, and can result in identity theft. SECNAV has stated this is a top priority to fix and wants to treat PII in the same manner as classified information and build similar handling processes with consequences for mishandling.

Functional Category: Communications and/or Intelligence and/or Security

Component: Department of the Navy

Senior Official in Charge: Department of the Navy, Chief Information Officer

Pace of Corrective Action:

Year Identified: FY 2007

Original Targeted Correction Date: 4th Qtr, FY 2008

Targeted Correction Date in Last Year’s Report: 1st Qtr, FY 2009

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Indicator: Multi-faceted approach aimed at shaping human behavior and accountability along with raising PII awareness across the DON.

Results Indicator: A “Green” rating on the E-Gov Privacy Impact Assessment (PIA) Scorecard (90% or better). After an initial increase in number of PII incidents due to increased awareness, the number of incidents will gradually establish a steady state baseline from which result of actions can be measured. Number of identity theft cases linked to government loss of PII (currently none).

Source(s) Identifying Weakness:

- Naval Audit Service (NAVAUDSVC) Report N2007-0004, “Management of Privacy Act Information at Naval District Washington,” dated November 21, 2006
- NAVAUDSVC Report N2007-0012, “Disposal of Protected Personal Information at Naval Base San Diego, CA,” dated February 2, 2007
- NAVAUDSVC Report N2007-0014, “Disposal of Protected Personal Information at Marine Corps Base Camp Pendleton, CA,” dated February 15, 2007
- NAVAUDSVC Report N2007-0018, “Disposal of Protected Personal Information at Naval District Washington, DC,” dated March 1, 2007
- NAVAUDSVC Report N2007-0025, “Disposal of Protected Personal Information at Naval Medical Center Portsmouth, VA,” dated April 12, 2007
- NAVAUDSVC Report N2007-0035, “Disposal of Protected Personal Information at Naval Station Norfolk and Naval Amphibious Base Little Creek, Norfolk, VA,” dated May 25, 2007
- NAVAUDSVC Report N2007-0036, “Disposal of Protected Personal Information at Naval Support Activity Mid-South, Millington, TN,” dated May 25, 2007
- NAVAUDSVC Report N2007-0037, “Disposal of Protected Personal Information at Department of the Navy Facilities,” dated May 25, 2007
- GAO Report GAO-07-657, “Privacy: Lessons Learned about Data Breach Notification,” dated April 30, 2007
- GAO Report GAO-07-737, “Data Breaches Are Frequent, but Evidence of Resulting Identity Theft Is Limited; However, the Full Extent Is Unknown,” dated June 4, 2007
- PII Incident Reports
- Federal Information Security Management Act/E-Gov PIA Scorecard

Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Rewrite DoD PIA template and automate process.
Completed	Develop privacy IT strategy for next generation DON network.
Completed	Develop PII compliance spot check form to measure command compliance.

Completed	Create POD Cast to raise importance of PII awareness to DON.
Completed	Promulgate Data at Rest encryption and implementation policy.
Completed	Achieve 90% PIA compliance score.
Completed	Conduct DON-wide PII stand-down to raise awareness and improve accountability.
Completed	Promulgate new reporting procedure policy that reflects latest OMB guidance.
Completed	Begin certifying DON Privacy Officials under International Association of Privacy Professionals (IAPP) Certified Information Privacy Professional (CIPP) standards.
Completed	Conduct red team demonstration on public facing and protected DON web sites.
Completed	Develop and promulgate policy that addresses consequences to PII mishandling.
Completed	Ensure commercial contract language provides adequate PII safeguards.
Completed	Consolidate DNS Privacy Act/FOIA Office with DON CIO Privacy Office.
Completed	Implemented data at rest encryption requirement for all portable hard drives.
Completed	Rewrite of SECNAV 5211.5E Privacy Program Instruction overcome by events. Milestone removed from plan of action list. Note: The materiality of a rewrite of SECNAV 5211.5E is considered minimal regarding the PII issue. The DON CIO has implemented processes and procedures regarding the audit findings that satisfy the intent of those findings. From the DON CIO perspective, we consider this issue completed.

(TAB B-3)

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

“Identified During Prior Periods”

Title and Description of Issue: *Continuity Planning Program:* The DON needs to fully implement a Continuity Planning Program (formerly referred to as Emergency Action Planning) to include clear and concise guidance, plans, and coordinated continuity planning exercises. To ensure more complete implementation, DON needs to enhance and implement more effective oversight responsibilities as required by both DoD and DON guidance. In addition, such oversight responsibilities will require coordination with, and implementation by, DON subordinate commands. We identified the need to implement a Continuity Planning Program as a material internal control weakness to highlight the urgency for management to increase attention to the area and take corrective actions to ensure ensuring continuity plans are adequately and fully developed. Implementation of corrective actions are planned to correct identified weaknesses and prevent future recurrence.

Functional Category: Communication and/or Intelligence and/or Security

Component: Department of the Navy

Senior Official in Charge: Assistant for Administration, Under Secretary of the Navy (AAUSN)

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 3rd Qtr, FY 2007

Targeted Correction Date in Last Year’s Report: 1st Qtr, FY 2009

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Process: All corrective action(s) are certified by the responsible commands upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, or internal control reviews.

Results Indicator: Full implementation of the Continuity Planning Program by AAUSN, Chief of Naval Operations (CNO) (N3/N5), and Commandant of the Marine Corps (CMC) and assurance that guidance has been issued and oversight responsibilities have been fully exercised as required by SECNAV Instruction 3030.4A. AAUSN, CNO, and CMC validation that headquarters and subordinate commands have developed continuity plans to identify and support DON’s mission-essential functions.

Source(s) Identifying Weakness:

- Naval Audit Service (NAVAUDSVC) Report N2006-0034, “Summary Report on Emergency Action Plan Oversight,” dated July 13, 2006
- NAVAUDSVC Report N2004-0042, “Emergency Planning at Naval Criminal Investigative Service,” dated April 29, 2004
- NAVAUDSVC Report N2004-0006, “Emergency Planning at Naval Security Group Command,” dated October 23, 2003
- NAVAUDSVC Report N2003-0011, “Office of Naval Intelligence (ONI) Emergency Action Plans,” dated November 8, 2002

Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	CNO: Full implementation of a continuity program in accordance with SECNAV Instruction 3030.4A.
Completed	CNO: Conduct DON wide COOP exercise to include relocation of Emergency Response Team. Non-relocating organizations to exercise their plans and apply lessons learned.
Completed	AAUSN: 75% signed continuity plans for DON subordinate commands.
Completed	Marine Corps: MCNOSC reviewed draft COOP
Completed	AAUSN: COOP addressed and reviewed by COMNAVNETWARCOM and Naval Network and has been staffed.
Completed	Marine Corps: Issued a MCNOSC 3020 which is the current standing order concerning COOP with linkage to oversight of NMCI and the Marine Corps Central Office of Information (COI) during contingency event.
Completed	Marine Corps: Revision of NCNOSC Order 3020.1 signed by the Commanding Officer, April 2008
Completed	Marine Corps: issued MCNOSC Continuity of Operations Order, MCNOSC 3020, which is the current standing order concerning COOP with linkage to oversight of the USMC COI in NMCI. This order incorporated the newly established Alternate MCNOSC facility into the COOP.

Completed	Marine Corps: MCNOSC conducted a COOP test and validated achievement of Initial Operational Capability of the Alternate MCNOSC facility
Completed	Marine Corps: Conducted a COOP test with EDS EMF and validated achievement of Full Operational Capability of the Alternate MCNOSC and Alternate EMF facilities
Completed	Marine Corps: Conducted a successful full COOP exercise with EDS EMF. Testing is completed with normal technological upgrades and policy changes occurring from this point forward in regards to the MCNOSC's COOP capability.
Completed	AAUSN: Verified that 100% of DON subordinate commands have signed continuity plans and have exercised the plans.

(TAB B-3)

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

“Identified During Prior Periods”

Title and Description of Issue: *Management and Oversight of the Department of the Navy’s Telecommunications Program:* In 2004 the General Accountability Office (GAO) audited the Navy’s Telecommunication Program. The report contained eleven recommendations to: enforce existing policies related to maintaining accurate inventory data and performing review and validation procedures; develop and enforce comprehensive policies and guidance governing the purchase, issuance, and use of cell phones and calling card services; and develop a strategic management framework for improving the acquisition of telecommunication services by strengthening the Navy’s analysis of telecommunication service requirements and spending.

Functional Category: Information Technology

Component: Department of the Navy

Senior Official in Charge: DON Chief Information Officer

Pace of Corrective Action:

Year Identified: FY 2004

Original Targeted Correction Date: 2nd Qtr, FY 2009

Targeted Correction Date in Last Year’s Report: 4th Qtr, FY 2009

Current Target Date: N/A

Reason for Change in Date: N/A

Validation Process: Responsible commands will 1) inventory, manage, and account for telecommunication systems and services through the use of automated tools allowing for enterprise-wide visibility, analysis, and reporting and 2) audit telecommunication systems and services through the reconciliation of vendor and Department of the Navy (DON) invoice records against contracted rates and terms.

Results Indicator: The weakness is considered resolved when the DON implements an enterprise telecommunications management framework.

Source(s) Identifying Weakness: GAO Report 04-671, “Inadequate Management Oversight Hampers the Navy’s Ability to Effectively Manage Its Telecommunication Program,” dated June 2004.

Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Issued SECNAV memo on Telecommunication Management Action Plan.
Completed	Released Request for Information (RFI) to industry to evaluate best practices.
Completed	Enterprise cell phone contracts executed by Fleet Industrial Supply Center (FISC).
Completed	Issued ASN(RD&A) memo - DON Acquisition Policy on Mobile Phone and Data Equipment Services.
Completed	Issued DON CIO memo - DON Policy for issuance, use and management of Government provided Mobile phone, data equipment and services.
Completed	Issued DON CIO memo - DON Policy on Electronic Submission of Payment Request from Telecommunications Service Providers.
Completed	Naval Communications and Telecommunications Master Stations (NCTAMS). Adopt configuration accounting information retrieval system operation support software for base communication officer support in over 30 bases.
Completed	Create Policy Roadmap to support DON Telecommunications Management.
Completed	<p>DON CIO has submitted a close-out letter for the audit based on the inability to consolidate telecommunications equipment information and recoop projected savings.</p> <p>Management and oversight of the DON Telecommunications remains an item of focus. PEO C4I (Command, Control, Computer, Communications and Information) currently purchase approximately 50% of DON telecommunications equipment with the remaining equipment being purchased by the commands. It is expected that by the first quarter of FY 2010, ASN (RD&A) will expand the scope of PEO C4I making them the primary agent for acquisition of all telecommunications equipment. This will increase the PEO's ability to control purchasing and accountability of all DON Telecommunications Program. It is expected that requirements will be similarly consolidated under NAVNETWARCOM. DON CIO continues to respond to IG and GAO requests for updates on this effort as the final actions are executed.</p>

(TAB C)

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PRINCIPAL STAFF ASSISTANTS ONLY**

(TAB D-1)
LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES
DEPARTMENT OF THE NAVY (DON) GENERAL FUND

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
N/A		

Uncorrected Weaknesses Identified During Prior Periods:

<u>Correction Qtr & FY Date</u>				
Title	Year First Reported	Per Last Annual Statement	Per This Annual Statement	Page #
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Collections and Disbursements	FY 2006	1 st Qtr, FY 2009	1 st Qtr, FY 2010	D-2-1
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Procure to Pay Processes	FY 2005	1 st Qtr, FY 2011	3 rd Qtr, FY 2011	D-2-4
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
General Equipment	FY 2007	4 th Qtr, FY 2013	4 th Qtr, FY 2013	D-2-6
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Military Equipment	FY 2005	2 nd Qtr, FY 2013	4 th Qtr, FY 2013	D-2-11
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Operating Materials And Supplies (OM&S)	FY 2005	2 nd Qtr, FY 2015	2 nd Qtr, FY 2015	D-2-16
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Real Property	FY 2006	2 nd Qtr, FY 2013	2 nd Qtr, FY 2013	D-2-20

Note: Material Weaknesses which had previously been reported in the DON Annual Statement of Assurance under Tab F, Marine Corps General Fund, have been consolidated into Tab D. Marine Corps milestones for Financial Reporting of Real Property and Military Equipment have been consolidated into the corresponding material weaknesses within the DON General Fund. The Marine Corps material weakness for Financial Reporting of Internal Use Software is removed from the Statement of Assurance, pending process documentation and control analysis under the DON Financial Improvement Program, to determine that segment's materiality to the DON General Fund.

(TAB D-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Collections and Disbursements, General Fund.* System control environments are not sufficiently designed to prevent problem disbursements. Accounting adjustments are not properly authorized. There is a lack of separation of duties between preparer and approver of Form 1081s. There is also a lack of periodic reconciliation between the Treasury and General Ledger systems.

Functional Category: Financial Reporting

Component: Department of the Navy (DON)

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2006 (as Financial Reporting of Fund Balance with Treasury, General Fund)

Original Targeted Correction Date: 4th Qtr, FY 2008

Targeted Correction Date in Last Year's Report: 1st Qtr, FY 2009

Current Target Date: 1st Qtr, FY 2010

Reason for Change in Dates: The cancellation of the Compensating Control Tool and the new development of the DFAS/CL Business Activity Monitoring (BAM) Tool to assist in the resolution of Unmatched Disbursements (UMDs) resulted in the change of the assertion date.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management control review.

Results Indicator: The weakness is considered resolved when the DON has developed and implemented a process and internal control system to ensure a proper reconciliation of Command/Activity accounting reports and records with Treasury's reports and records. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Research current problem disbursement efforts, collaborate with other DFAS centers to discuss problem disbursements, determine if adequate resources are assigned to work problem disbursements and determine the areas of focus for problem disbursements at DFAS-CL (3.1.1.2 – 3.1.1.5)
Completed	Review of policies and procedures by system, identify the universe of DFAS and Navy personnel with the ability to approve accounting adjustments (3.2.1.2, 3.2.1.3)
Completed	Design tests using OMB A-123 Guidance (4.1)
Completed	Perform Phase I testing of key controls 1-10 for disbursements (4.2.1 - 4.2.1.1.10)
Completed	Perform Phase I testing of controls for collections, (4.2.1.2 - 4.2.1.2.2)
Completed	Define and Report Weaknesses, if any were identified through testing (4.2.1.2.3)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2010	Corrective Action Tasks for Problem Disbursements/Collections: identify UMD roles and responsibilities by appropriation and customer (3.1.1.1)
1 st Qtr, FY 2010	Corrective Action Tasks for Problem Disbursements/Collections: Interfund, No Obligation and MILCON Working Groups will meet to research the major

issues associated with problem disbursements. Define controls and determine deficiencies in the to-be process (3.1.1.6 – 3.1.1.8.3)

1 st Qtr, FY 2010	Correction Action Tasks for Review/Approval of Accounting Adjustments: obtain definition of accounting adjustments by system; update/revoke the user access to correspond, identify roles and responsibilities and mechanism for preparing accounting adjustments (3.2 – 3.2.1.9)
1 st Qtr, FY 2010	Correction Action Tasks for Review/Approval of Accounting Adjustments: draft guidance on accounting adjustments and approval process, develop and implement web-based training (3.2.2 – 3.2.2.4)
1 st Qtr, FY 2010	Corrective Action Tasks for Reconciliation of Cash: observe Business Activity Monitoring (BAM) demo, assess impact of the outcome of IOC/FOC on reconciliation (3.3 – 3.3.3.1)
1 st Qtr, FY 2010	Perform Phase II Testing (4.2.2)
1 st Qtr, FY 2010	Verification and Validation, Audit substantive Testing (FAM/GAAS Standards) (5, 5.1)
1 st Qtr, FY 2010	Complete Assertion Package, Management Assertion, Submit Assertion Package to DoDIG & FIAR (6 - 6.2)

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
N/A	N/A

(TAB D-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Procure to Pay Processes, General Fund.* Accounts Payable (A/P) are not posted in a timely manner or at all for Other Contractual Services (OCS) transactions. Reporting of Rent, Communications and Utilities is also inconsistent. Accounts Payable recorded through Navy Enterprise Maintenance Automated Information Systems (NEMAIS) and overall in the Standardized Accounting and Reporting System (STARS) One Pay A/P process is not in accordance with the Federal Accounting Standards Advisory Board (FASAB) Accounting Standards.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005 (as Financial Reporting of Accounts Payable, General Fund)

Original Targeted Correction Date: 2nd Qtr, FY 2008

Targeted Correction Date in Last Report: 1st Qtr, FY 2011

Current Target Date: 3rd Qtr, FY 2011

Reason for Change in Dates: N/A

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management control review.

Results Indicator: The weakness is considered resolved when all related deficiencies have been mitigated by corrective actions and through testing. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plan for the Other Contractual Services segment.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Design Tests using OMB A-123 Appendix A Guidance (4.1)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2010	Perform Phase I Testing on key controls 1 – 16 (4.2.1 - 4.2.1.16)
2 nd Qtr, FY 2010	Corrective Action Tasks for process definition, system configuration and change management (3 - 3.1.3.1)

C. Planned Milestones beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2011	Test of Design and Effectiveness of Internal Controls (4)
2 nd Qtr, FY 2011	Verification and Validation through Audit of Substantive Testing – Financial Audit Manual/Generally Accepted Auditing Standards (5, 5.1)
3 rd Qtr, FY 2011	Management Assertion, Complete Assertion Package and submit to DoDIG & FIAR (6 - 6.2)

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of General Equipment, General Fund.*

The Navy is currently working with the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) and Navy major commands to fully implement Statement of Federal Financial Accounting Standard No.23, “eliminating the category national defense property, plant and equipment.” Reclassification of some property that is currently considered Military Equipment to General Equipment will increase the materiality of this line item in future years. Due to lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record and system limitations, the Navy cannot establish and/or support ownership and valuation of General Equipment. Additionally, the Navy cannot substantiate that the asset records in accounting system of record represent all General Equipment assets. For the assets included in the accounting system of record, the Navy cannot include all ancillary costs to the asset or assign a correct useful life. Finally, the Navy’s inability to reconcile their property accountability systems with their financial system causes their presentation and disclosure of the assets to be inaccurate.

Corrective action tasks for the General Equipment segment are divided into four processes consisting of the following:

- Physical Inventory Process
- Receipt and Acceptance Process
- Proper Financial Accounting Treatment for Assets (PFAT4A) Process
- Valuing Equipment Process.

Each process contains similar corrective action implementations, which are: train responsible parties, implement manual controls, execute corrective actions, measure, monitor, disseminate, and test performance, identify control test failures, determine cause, and retrain/retest as necessary.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2007

Original Targeted Correction Date: 1st Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2013

Current Target Date: 4th Qtr, FY 2013

Reason for Change in Dates: N/A

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management review.

Results Indicator: The weakness is considered resolved when management asserts that the General Equipment segment is ready for audit and Department of Defense, Office of Inspector General (DoDIG), and Naval Audit Service or other auditors confirm that: General Equipment systems and interfaces are compliant; all required assets are recorded in General Equipment systems; and reported assets do exist. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Defined Audit-Ready Financial Environment (Integrated Financial Management System) by communicating and distributing Acquire to Retire Audit Readiness (1.3, 1.3.1)
Completed	Identified known weaknesses (1.5)
Completed	Documented effective controls and prioritized control weaknesses (1.7)
Completed	Gap Analysis for the following Commands: BUMED, BUPERS, CNIC, FFC-CPF, NAVSEA, ONR, SPAWAR, SPECWAR (1.8.1 – 1.8.8.2)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
3 rd Qtr, FY 2009	Identify command stakeholders point-of-contact (POCs). Identify Accountable Property Officers (APOs) by command. Identify Navy WAWF POCs by command. Identify Navy Program Execution Office Points-of-Contact (3.1, 3.1.1, 3.1.2, 3.1.3)
4 th Qtr, FY 2009	Receipt and Acceptance Process: Implement system changes for WAWF-DPAS interface. Create DODAAC table, and update receipt and acceptance policy and procedures (3.2.2.1, 3.2.2.1.2, 3.2.2.2)
4 th Qtr, FY 2009	Update PFAT4A policy and procedures (3.3.1)
4 th Qtr, FY 2009	Valuing Equipment Process: Monitor and Disseminate Navy ERP Impact on general equipment process and internal controls (3.4.6)
1 st Qtr, FY 2010	Update physical inventory policy and procedures (3.2.1.1)
1 st Qtr, FY 2010	Train responsible parties for the Receipt and Acceptance process and controls. Complete Receipt and Acceptance of manual and systemic controls. Implement the following general equipment key controls: 1, 2, 4, 5, 9, 16-18. Complete transfer of equipment using WAWF/DPAS interface. (3.2.2.3 – 3.2.2.3.1.6)(3.2.2.3.2, 3.2.2.3.2.3)
1 st Qtr, FY 2010	Train responsible parties for the PFAT4A Process and complete PFAT4A manual controls (3.3.2, 3.3.2.5)
3 rd Qtr, FY 2010	Execute Receipt and Acceptance corrective actions, implement receipt and acceptance manual controls and utilize WAWF/DPAS interface (3.2.2.4 – 3.2.2.4.2)
3 rd Qtr, FY 2010	Execute PFAT4A Corrective Actions. Measure PFAT4A performance and monitor and disseminate performance metrics on period. (3.3.3, 3.3.4, 3.3.4.2)
3 rd Qtr, FY 2010	Train responsible parties for Valuing Equipment, complete Valuation Manual controls, implement the following general equipment key controls: 11, 13, 15, 28; and the following financial reporting key controls: 3, 4, 6, 7 (3.4.1)

4 th Qtr, FY 2010	Train responsible parties for the Physical Inventory process/controls, identify baseline inventory performance, create DPAS records for found equipment, and complete annual/cyclical inventory performance (3.2.1.2, 3.2.1.2.1, 3.2.1.2.1.4, 3.2.1.2.2)
4 th Qtr, FY 2010	Measure Receipt and Acceptance performance, and monitor and disseminate performance metrics (3.2.2.5, 3.2.2.5.2)
4 th Qtr, FY 2010	Execute Valuation corrective actions by implementing valuation controls (3.4.2, 3.4.2.1)

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Measure Physical Inventory performance, and monitor and disseminate performance metrics (3.2.1.4, 3.2.1.4.2)
1 st Qtr, FY 2011	Test Receipt and Acceptance performance by developing methodology, testing samples and control effectiveness (3.2.2.6 – 3.2.2.6.4)
1 st Qtr, FY 2011	Test PFAT4A performance by developing methodology, testing samples and control effectiveness (3.3.5 – 3.3.5.4)
2 nd Qtr, FY 2011	Measure Valuation control effectiveness, monitor and disseminate performance metrics on period (3.4.3, 3.4.3.2)
3 rd Qtr, FY 2011	Complete Receipt and Acceptance corrective action by identifying control test failure and determine cause of failure, retrain, and retest (3.2.2.7 – 3.2.2.7.4)
3 rd Qtr, FY 2011	Test Valuation performance by developing methodology, testing samples and control effectiveness (3.4.4 – 3.4.4.4)
3 rd Qtr, FY 2011	Complete PFAT4A corrective action by identifying control test failures and determine cause of failure, retrain, and retest (3.3.6 – 3.3.6.4)
1 st Qtr, FY 2012	Test Physical Inventory performance by developing methodology, testing samples and control effectiveness (3.2.1.5 – 3.2.1.5.4)

2 nd Qtr, FY 2012	Complete Valuation corrective action by identifying control test failures, determining cause of failure, retrain, and retest (3.4.5 – 3.4.5.4)
2 nd Qtr, FY 2012	Complete Physical Inventory corrective action by identifying control test failures, determining cause of failure, retrain, and retest (3.2.1.6 – 3.2.1.6.4)
3 rd Qtr, FY 2012	Execute Physical Inventory corrective actions, perform annual/cyclical inventories for year 1 and ongoing (3.2.1.3 – 3.2.1.3.2.1)
2 nd Qtr, FY 2013	Complete Mock Audit/Final Testing/Corrective Action, perform an end-to-end test process to include procurement and contracting, perform a property accountability test to include the following: receipt and acceptance, physical inventories, transfers, loans, and disposals, property accountability and correct and retest as necessary (3.4.7 – 3.4.7.2)
2 nd Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
4 th Qtr, FY 2013	Complete Verification and Validation (V&V) and Management Assertion (5)(6)

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Military Equipment, General Fund*

The Department of the Navy (DON) cannot establish or support ownership and valuation of military equipment due to (1) lack of supporting documentation, (2) underutilization of the accounting system of record and (3) system limitations. Additionally, the DON cannot substantiate that the asset records in accountable systems of record (non-financial) represent all Military Equipment assets and that those assets include all their ancillary costs (freight, inspection, augmentation), or assigned correct useful life. Legacy information systems did not maintain a historical cost baseline; therefore, the DON cannot properly record and maintain the value of military equipment. Further, accountable systems of record are not tied to the accounting systems, hampering accurate valuation of assets. Reclassification of some property that is currently considered Military Equipment to General Equipment will affect the accurate reporting of this line item. The DON has not properly recorded and presented contract financing interim payments as capitalized Military Equipment, due to inadequate and conflicting policy. The DON has not properly entered data in the Capital Asset Management System – Military Equipment to ensure that the Construction-In-Progress (CIP) balance is accurate.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005

Original Targeted Correction Date: 1st Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2013

Current Target Date: 4th Qtr, FY 2013

Reason for Change in Dates: Fiscal Year 2008 Statement of Assurance did not include final milestone for management assertion of audit readiness.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management control review.

Results Indicator: The weakness is considered resolved when the DON meets Federal Accounting Standards for the financial reporting of Property, Plant and Equipment. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Government Accountability Office (GAO), Report GAO-01-244 "Report on the Department of Defense Fiscal Year 2001 Major Management Challenges and Program Risks," dated January 16, 2001.
- Department of Defense, Office of Inspector General Report D-2004-036, "Independent Auditor's Report on the Department of Defense Fiscal Year 2003 Agency-Wide Principal Financial Statements," dated December 10, 2003.
- DoDIG, Report D-2008-042, "Reporting of Contract Financing Interim Payments on the DoD Financial Statements," dated January 31, 2008
- DoDIG, Report D-2008-103, "Memorandum Report on Internal Controls Over the U.S. Special Operations Command Military Equipment Baseline Valuation Effort," dated June, 13, 2008
- GAO, Report GAO-05-284T, "Fiscal Year 2004 U.S. Government Financial Statements," dated February 9, 2005.
- DoDIG, Report D-2009-049, "Internal Controls over the United States Marine Corps Military Equipment Baseline Valuation Effort", dated February 9, 2009.
- DoDIG, Report No. D-2009-065, "Navy Reporting of Financing Payments for Shipbuilding on the Financial Statements," dated March 26, 2009.
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) and/or Financial Improvement Initiative (FII) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans. Parentheses also indicate milestones specific to the United States Marine Corps (USMC), where applicable.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Initiate discovery at NAVAIR Pilot Program Office (3.1)
Completed	Work with the DASN (Air) to select "pilot" team members including PEO(s), financial management, and logistics representatives (3.2.1.1)
Completed	Preparation Activities for Military Equipment Valuation (MEV) includes: brief FMO and ASN/RDA on pilot approach, identify organization for gap analysis study support, finalize AS-IS and TO-BE process, and develop data collection templates (3.2.1.2.1 – 3.2.1.2.1.7)
Completed	MEV Gap Analysis Study includes: conduct kick-off event with pilot leadership team and SME participants, execute preliminary reports in Navy ERP, perform data collection, develop metrics, and conduct measure leadership review with gap analysis study results (3.2.1.2.2 – 3.2.1.2.2.9)
Completed	Conduct leadership review of implementation strategy, conduct control tollgate, and develop pilot out-brief (3.2.1.3.2.13, 3.2.1.3.2.18, 3.2.1.3.2.19)
Completed:	Military Equipment Valuation Gap Analysis Study to include: analyze “As-Is” and “To-Be” Model Difference, conduct Toll-Gate review, and develop and conduct pilot out-brief (3.1)
Completed:	Define accountable systems of record by transitioning Non-Aircraft Inventory Readiness and Reporting System (AIRRS) and Naval Vessel Register (NVR) to DPAS and defined current DON policy and guidance (3.2.1.1)
Completed	Contract Awarded to General Dynamics (GDIT) to provide services in Item Unique Identification (IUID) project planning, engineering analysis, legacy data collection and data management. (USMC)
Completed	Create Temporary Data Storage repository to capture aggregated military equipment asset data from legacy IUID records. (USMC)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2010	Complete Military Equipment Valuation Pilot to include: preparation of activities for MEV Pilot, implementation of MEV Pilot, analysis of impact on legacy information systems, and finalize implementation strategy (3.2.1.3 – 3.2.1.3.2.12)
1 st Qtr, FY 2010	Review and Revalidate Waived Programs and Ensure Appropriate Supporting Documentation (USMC)
2 nd Qtr, FY 2010	Marking Campaigns to Identify Unique Assets (USMC)

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2012	Evaluate pilot results and ERP functionality to remaining command functional requirements (3.2.1.4)
2 nd Qtr, FY 2012	Develop “To Be” systems environment (procurement, accountability, and accounting), confirm “To Be” systems environment, confirm military equipment policy per DON ASN (RD&A) and ASN (FM&C) in coordination with OSD (AT&L) and OSD Comptroller, and develop strategy and functional requirements to implement requirements of Proper Financial Accounting Treatment for Military Equipment (PFAT4ME) (3.5 – 3.5.3)
3 rd Qtr, FY 2012	Develop interface with IUID registry and Navy ERP, identify APOs, develop "To Be" process documentation to include risks, controls, and test plans, and re-evaluate military equipment “baseline” strategy (3.5.4 – 3.5.8)
2 nd Qtr, FY 2013	Implement “To Be” environment, roll-out new military equipment process, systems, and implement NAVY ERP at the following commands: NAVAIR, NAVSEA, and SPAWAR (3.6, 3.6.2.2.1 – 3.6.2.2.3)
2 nd Qtr, FY 2013	Complete military equipment accuracy at all locations by performing a complete assessment of all inventory for

	military equipment as well as identify unusable, damaged, excess, or missing items (3.7 – 3.8.2)
2 nd Qtr, FY 2013	Identify and implement a military equipment sampling methodology to sustain data quality (3.9)
2 nd Qtr, FY 2013	Global Combat Support System – Marine Corps (GCSS-MC) Implementation and Sustainment. (USMC)
2 nd Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
4 th Qtr, FY 2013	Complete Verification and Validation (V&V) and Management Assertion (5 – 6.2)

(TAB D-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Operating Materials and Supplies (OM&S), General Fund.* The Navy does not perform and document annual physical inventories of OM&S or comply with established policy to require source documentation be provided to support or provide a clear and concise audit trail to the reported OM&S dollar values. Additionally, the Navy does not provide adequate oversight of contract work performed to modify the OM&S updating and reporting process. Legacy systems were designed for material management purposes but not designed to capture any financial information, therefore, the Navy cannot maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005

Original Targeted Correction Date: 4th Qtr, FY 2011

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2015

Current Target Date: 2nd Qtr, FY 2015

Reason for Change in Dates: N/A

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management review.

Results Indicator: The weakness is considered resolved when management asserts that the OM&S segment is ready for audit and Department of Defense, Office of Inspector General (DoDIG), and Naval Audit Service or other auditors confirm that: OM&S systems and interfaces are compliant; all required assets are recorded in OM&S systems; and reported assets do exist. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- DoDIG Report D-2003-039, “Report on the Naval Supply Systems Command Revaluation of Inventory to Latest Acquisition Cost,” dated December 31, 2002.
- DoDIG Report D-2004-036, “Independent Auditor’s Report on the Department of Defense Fiscal Year 2003 Agency-Wide Principal Financial Statements,” dated December 10, 2003.
- DoDIG Report D-2007-048, “Reporting of Navy Sponsor owned Material Stored at the Space and Naval Warfare Systems Centers,” dated January 26, 2007.
- DoDIG Report D-2007-085, “Reporting of Navy Sponsor owned Material Stored at the Naval Air Systems Command Activities,” dated April 23, 2007.
- Naval Audit Service Audit Report, N2007-0047, “Industrial Logistics Support Management Information System,” dated July 31, 2007.
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Identify plans for OIS to fully comply with applicable laws/regulations (3.2.1)
Completed	Correctly report and disclose FY 2005 prior period adjustment of \$106 Million (3.2.4)
Completed	Maintain readily available audit trails and documentation to support all DCI submissions for DON Financial Statements (3.2.5)
Completed	Establish requirements for desktop procedures and documented supervisory reviews for all financial data (3.2.6)

Completed	Develop comprehensive MOAs in sufficient detail to ensure mission-critical support functions are agreed to by activities providing those services (3.2.8)
Completed	Require that segregation of duties be implemented in the OIS development effort (3.2.9)
Completed	Analyze legacy information system disposition (3.3.1.1.1)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2009	Analyze and confirm which OM&S systems will be replaced by ERP and which will remain as legacy systems (3.1)
4 th Qtr, FY 2009	Complete deficiency correction actions identified in 2007 by Naval Audit Service in DON legacy OM&S systems (3.2)
4 th Qtr, FY 2009	Identify legacy information systems which are Candidate for Conversion/Migration into Navy ERP (3.3.1.1.2)
4 th Qtr, FY 2009	Perform data mapping from legacy environment to NAVY ERP (3.3.1.1.3)
2 nd Qtr, FY 2010	Determine ERP strategy and solution to address SOM, Appropriation Purchase Account (APA) material, Property in the Possession of Contractors (PIPC), and residual material, issue clarification guidance for definition of OM&S and deploy NAVY ERP Release 1.1 (3.4 – 3.6)
2 nd Qtr, FY 2010	Complete preparation activities for Material Management (MM) Pilot (3.8.1.1)
4 th Qtr, FY 2010	Analyze impact on legacy information systems and finalize implementation strategy of Material Management pilot (3.8.1.2.11)

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2011	Implement “To Be” process in accordance with implementation strategy (3.8.1.2.14)

2 nd Qtr, FY 2013	Interface legacy systems with ERP and design and implement interfaces between legacy systems and ERP (3.7)
1 st Qtr, FY 2014	Confirm “To Be” processes in Navy ERP (3.8)
1 st Qtr, FY 2014	Evaluate pilot results and ERP functionality to remaining command functional requirements (3.8.2)
1 st Qtr, FY 2014	Implement “To Be” environment, and roll-out OM&S process for following commands: NAVAIR, NAVSEA, and SPAWAR (3.9 – 3.9.3)
1 st Qtr, FY 2014	Identify OM&S holders across Navy Commands and implement sample methodology to sustain data quality (3.10)
4 th Qtr, FY 2014	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
1st Qtr, FY 2015	Complete Verification and Validation (V&V) (5)
2 nd Qtr, FY 2015	Complete Management Assertion (6)

(TAB D-2)
UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
DON GENERAL FUND

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Real Property, General Fund.*

Due to lack of supporting documentation and system limitations, the Department of the Navy (DON) cannot post timely transactions to establish or support the valuation of Construction-in-Progress (CIP), and establish or support the valuation and ownership of Real Property across its component organizations. The DON lacks standardized procedures for transferring of real property from Naval Facilities Engineering Command (NAVFAC) to the receiving entities. The DON cannot validate users of all real property that do not reimburse the provider for goods and services, and cannot reconcile their inventory with Department of Defense (DoD) records in accordance with imputed costs policies.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 2nd Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2013

Current Target Date: 2nd Qtr, FY 2013

Reason for Change in Dates: N/A

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management control review.

Results Indicator: The material weakness will be corrected when a process and internal control system is developed and implemented to ensure that the DON has adequate documentation to support accurate and timely Real Property estimates and valuations. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Department of Defense Inspector General (DoDIG) Report. D-2006-072, “Internal Controls Related to Department of Defense Real Property,” dated April 6, 2006
- DoDIG Report. D-2007-48, “Report on Navy Sponsor Owned Material Stored at the Space and Naval Warfare Systems Centers,” dated January 26, 2007
- DoDIG Report. D-2007-85, “Reporting of Navy Sponsor Owned Material Stored at the Naval Air Systems Command Activities,” dated April 23, 2007
- DoDIG Report. D-2008-072, “Controls Over Army Real Property Financial Reporting,” dated March 28, 2008
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) and/or Financial Improvement Initiative (FII) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans for the Department of the Navy. Parentheses also indicate milestones specific to the United States Marine Corps (USMC), where applicable.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	STARS reconciliation for MILCON Reimbursables (3.1.1)
Completed	Implementation of a fully net-centric environment (3.12)
Completed	Defined Alternative Valuation Methodology of Real Property (USMC)
Completed	Formalized Marine Corps Real Property Document Retention Policy (USMC)
Completed	Tested NAVFAC Improvements (DD-1354 Availability and iNFADS Accuracy) (USMC)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2009	Complete the Military Construction Program (MILCON) reimbursable corrective action by creating journal vouchers for MILCON (Reimbursable) Lines of Accounting (LOA) in iNFADS System and upload financial data in STARS (3.1-3.1.3)
4 th Qtr, FY 2009	Develop inventory plan for all real property asset classes (3.10.1)
4 th Qtr, FY 2009	Complete Base Realignment and Closure (BRAC) net realizable value by updating NITC depreciation algorithm in iNFADS system, Defense Capabilities and Management (DCM) modifications and include balance for GL 1890/1899 in DCM (3.2)
4 th Qtr, FY 2010	Complete Capital Leases by assessing iNFADS data, updating property record card based on assessment in iNFADS, and modify iNFADS in order to identify capital leases (3.3)
4 th Qtr, FY 2010	Design breakage in Construction In Progress (CIP). Establish requirements and thresholds for inactive project design; identify FIS system query parameters, process and system test and training, and final process and system implementation (3.5 – 3.5.6)
4 th Qtr, FY 2010	Complete DoD-wide asset reconciliation (3.8)

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Account and report imputed costs for real property assets (3.9)
4 th Qtr, FY 2011	Capital improvements to leases include iNFADS modifications and new balance for GL 1820 – Q2 FY 2009 (3.4 – 3.4.6)
2 nd Qtr, FY 2012	Transfer and acceptance of real property (1354/RPUID) to provide accurate real property data (3.6.1)

4 th Qtr, FY 2012	Complete other methods of acquisition (1354 Working Group Phase II) and process controls for real property disposal to ensure accurate real property data (3.6.2, 3.6.3)
4 th Qtr, FY 2012	Develop document retention by performing field level discussion, define required source documentation list, define DON Policy, develop and test new policy, train and roll out new processes (3.7 – 3.7.9; USMC)
4 th Qtr, FY 2012	Periodic inventory of real property (complete inventory once every five years) (3.10)
4 th Qtr, FY 2012	Establish real property acquisition value baseline (3.11)
1 st Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
1 st Qtr, FY 2013	Complete Verification and Validation (V&V) (5)
2 nd Qtr, FY 2013	Complete Management Assertion (6)

(TAB E-1)
**LISTS OF ALL UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES
NAVY WORKING CAPITAL FUND (NWCF)**

Uncorrected Weaknesses Identified During the Period:

Title	Quarter (QTR) and Fiscal Year (FY) Targeted Correction Date	Page #
N/A		

Uncorrected Weaknesses Identified During Prior Periods:

<u>Correction Qtr & FY Date</u>				
Title	Year First Reported	Per Last Annual Statement	Per This Annual Statement	Page #
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Collections and Disbursements	FY 2006	1 st Qtr, FY 2009	1 st Qtr, FY 2010	E-2-1
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Procure to Pay Processes	FY 2005	1 st Qtr, FY 2011	1 st Qtr, FY 2013	E-2-4
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Inventory	FY 2005	1 st Qtr, FY 2013	1 st Qtr, FY 2013	E-2-7
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
Real Property	FY 2006	2 nd Qtr, FY 2013	2 nd Qtr, FY 2013	E-2-10
<u>Functional Category:</u>				
<u>Financial Reporting</u>				
General Equipment	FY 2007	4 th Qtr, FY 2013	4 th Qtr, FY 2013	E-2-14

(TAB E-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Collections and Disbursements, Navy Working Capital Fund.* System control environments are not sufficiently designed to prevent problem disbursements. Accounting adjustments are not properly authorized. There is a lack of separation of duties between preparer and approver of Form 1081s. There is also a lack of periodic reconciliation between the Treasury and General Ledger systems.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2006 (as Financial Reporting of Fund Balance with Treasury,
Working Capital Fund)

Original Targeted Correction Date: 4th Qtr, FY 2008

Targeted Correction Date in Last Year's Report: 1st Qtr, FY 2009

Current Target Date: 1st Qtr, FY 2010

Reason for Change in Dates: The cancellation of the Compensating Control Tool and the new development of the DFAS/CL Business Activity Monitoring (BAM) Tool to assist in the resolution of Unmatched Disbursements (UMDs) resulted in the change of the assertion date.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management control review.

Results Indicator: The weakness is considered resolved when the DON has developed and implemented a process and internal control system to ensure a proper reconciliation of Command/Activity accounting reports and records with Treasury's reports and records. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Research current problem disbursement efforts, collaborate with other DFAS centers to discuss problem disbursements, determine if adequate resources are assigned to work problem disbursements and determine the areas of focus for problem disbursements at DFAS-CL (3.1.1.2 – 3.1.1.5)
Completed	Review of policies and procedures by system, identify the universe of DFAS and Navy personnel with the ability to approve accounting adjustments (3.2.1.2, 3.2.1.3)
Completed	Design tests using OMB A-123 Guidance (4.1)
Completed	Perform Phase I testing of key controls 1-10 for disbursements (4.2.1 - 4.2.1.1.10)
Completed	Perform Phase I testing of controls for collections, (4.2.1.2 - 4.2.1.2.2)
Completed	Define and Report Weaknesses, if any were identified through testing (4.2.1.2.3)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2010	Corrective Action Tasks for Problem Disbursements/Collections: identify UMD roles and responsibilities by appropriation and customer (3.1.1.1)

1 st Qtr, FY 2010	Corrective Action Tasks for Problem Disbursements/Collections: Interfund, No Obligation and MILCON Working Groups will meet to research the major issues associated with problem disbursements. Define controls and determine deficiencies in the to-be process (3.1.1.6 – 3.1.1.8.3)
1 st Qtr, FY 2010	Correction Action Tasks for Review/Approval of Accounting Adjustments: obtain definition of accounting adjustments by system; update/revoke the user access to correspond, identify roles and responsibilities and mechanism for preparing accounting adjustments (3.2 – 3.2.1.9)
1 st Qtr, FY 2010	Correction Action Tasks for Review/Approval of Accounting Adjustments: draft guidance on accounting adjustments and approval process, develop and implement web-based training (3.2.2 – 3.2.2.4)
1 st Qtr, FY 2010	Corrective Action Tasks for Reconciliation of Cash: observe Business Activity Monitoring (BAM) demo, assess impact of the outcome of Initial Operational Capability/Final Operational Capability (IOC/FOC) on reconciliation (3.3 – 3.3.3.1)
1 st Qtr, FY 2010	Perform Phase II Testing (4.2.2)
1 st Qtr, FY 2010	Verification and Validation, Audit substantive Testing (FAM/GAAS Standards) (5, 5.1)
1 st Qtr, FY 2010	Complete Assertion Package, Management Assertion, Submit Assertion Package to DoDIG & FIAR (6 - 6.2)

(TAB E-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Procure to Pay Processes, Navy Working Capital Fund.* Navy’s Procure to Pay segment encompasses the Reimbursable Work Order (Grantor), Supplies and Materials, Subsistence-in-Kind, Communications, Leases, Transportation of People, Transportation of Things and Other Contractual Services processes. Deficiencies in this area include: the inaccurate input of source documentation into Wide Area Work Flow (WAWF) that may result in unmatched collections, invalid billings, and duplicate entries if certain unique identifiers are not input correctly. In some cases, WAWF invoices that are usually received electronically for contract services are submitted in hard copy, which causes a delay in payment and may result in unmatched disbursements. Additionally, audit trail responsibilities need to be clarified for the Mechanization of Contract Administration Services (MOCAS) system to ensure that there is proper supporting documentation for the proprietary and budgetary accounts for Accounts Payable. Lastly, accruals are being executed inconsistently and do not always comply with the standards outlined by GAAP.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005 (as Financial Reporting of Accounts Payable,
DON Working Capital Fund)

Original Targeted Correction Date: 2nd Qtr, FY 2008

Targeted Correction Date in Last Report: 1st Qtr, FY 2011

Current Target Date: 1st Qtr, FY 2013

Reason for Change in Dates: The corrective action tasks are dependent on the implementation of Navy ERP.

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management control review.

Results Indicator: The weakness is considered resolved when all related deficiencies have been mitigated by corrective actions and through testing. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Document and Implement revised guidance to clarify Accrual Policies and Procedures (10.2.5)
Completed	Correct Mass Allocation – Supporting documentation for allocated amounts not readily identifiable (10.2.6)
Completed	Correct Deficiency 1478 Problem Disbursements (10.3.2)
Completed	Correct Deficiency 1142 High Volume of Unmatched Collections (10.3.5)
Completed	Correct Deficiency 994, Lack of Standardized Process for Field Level Balancing of Defense Working Capital Fund Accounting System (DWAS), DON Industrial Budget Information System (DONIBIS), and Department of Defense Reporting System – Budgetary (DDRS-B) (10.3.6)
Completed	Correct Deficiency 995, Lack of Journal Voucher Verification between DFAS and DWAS (10.3.7)
Completed	Correct Deficiency 481 Morale, Welfare, Recreation (MWR) Security Deposit Payments submitted to DFAS without proper documentation (10.3.11)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
N/A	N/A

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2011	Complete Data Cleaning/Correct Material Deficiencies (pre-ERP implementation) (10.9.1)
2 nd Qtr, FY 2011	Implement Navy ERP at Navy Inventory Control Point (NAVICP) (10.9.2)
2 nd Qtr, FY 2012	Discovery and Documentation of the Procure to Pay Process (10.9.9)
2 nd Qtr, FY 2012	Correct Material Deficiencies (post-ERP implementation) (10.9.14)
2 nd Qtr, FY 2012	Complete Systems Assessment (10.9.15)
4 th Qtr, FY 2012	Complete Internal Validation of Systems (10.9.18)
4 th Qtr, FY 2012	Complete Internal Validation of Financial Statements (10.9.19)
4 th Qtr, FY 2012	Submit Completed Validation Packages to FMO (10.9.20)
1 st Qtr, FY 2013	Assert Audit Readiness (10.9.22)

(TAB E-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of Inventory, Navy Working Capital Fund.* The Navy cannot maintain accurate inventory values and clear audit trails by Accounting System of Record (ASR) to permit the tracing of transactions from the source documentation to the reported total dollar values on the Inventory line item on Navy’s Financial Statements. The Navy misclassified and reported Sponsor Owned Material as Operating Materials and Supplies (OM&S) due to control deficiencies in following existing guidance, performance of annual physical inventories and oversight of contracts. Legacy systems cannot maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standards. As a result, the DON is unable to accurately account for, value, and report inventory on financial statements in accordance with Generally Accepted Accounting Principals and Federal Accounting Standards Advisory Board Statements of Federal Financial Accounting Standards.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2005

Original Targeted Correction Date: 4th Qtr, FY 2011

Targeted Correction Date in Last Year's Report: 1st Qtr, FY 2013

Current Target Date: 1st Qtr, FY 2013

Reason for Change in Dates: N/A

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management review.

Results Indicator: The weakness is considered resolved when management asserts that inventory are ready for audit and Department of Defense, Office of Inspector General (DoDIG), and Naval Audit Service or other auditors confirm that: inventory systems and interfaces are compliant; all required assets are recorded in inventory systems; and reported assets do exist. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- DoDIG, Report D-2003-039, “Report on the Naval Supply Systems Command Revaluation of Inventory to Latest Acquisition Cost,” dated December 31, 2002.
- DoDIG, Report D-2007-085, “Reporting of Navy Sponsor-Owned Material Stored at the Naval Air Systems Command Activities,” dated April 23, 2007.
- Naval Audit Service, Audit Report N2007-0047, “Industrial Logistics Support Management Information System,” dated July 31, 2007
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Included Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
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B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2010	Issue clarification guidance for definition of inventory, procedures for special operational situations, and Work-in-Progress (WIP), and identify inventory of built for service assets, and the proper costing and accounting treatment (3.10, 3.10.1)
2 nd Qtr, FY 2010	Roll out ERP for NAVSUP – Phase 1
4 th Qtr, FY 2010	Roll out ERP for NAVSUP – Phase 2

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
2 nd Qtr, FY 2011	Deployment of Navy ERP release 1.1 (3.3)

3 rd Qtr, FY 2011	Complete review, correction or modification, and documentation of business and financial processes (3.2)
1 st Qtr, FY 2012	Cleanse and migrate data to Navy ERP, correct deficiency 1431 inventory accuracy at Aviation Materials, deficiency 1432 inventory existence at Sea Materials and deficiency 1433 inventory valuation (3.4 – 3.7)
1 st Qtr, FY 2012	Implement direct method of valuing Depot Level Repairable and proper USSGL accounting for inventory (3.7.2, 3.7.2.1)
1 st Qtr, FY 2012	Require NSWC, NUWC, and COMFISC to maintain source documentation to permit the tracing of transactions in a manner that provides clear and precise audit trails to support the financial information reported on the financial statement (3.8)
2 nd Qtr, FY 2012	Develop auditable opening balances with appropriate supporting documentation that is readily available for auditors (3.1)
1 st Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
1 st Qtr, FY 2013	Complete Verification and Validation (V&V) (5)
1 st Qtr, FY 2013	Complete Management Assertion (6)

(TAB E-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue : *Financial Reporting of Real Property, Navy Working Capital Fund.* Due to lack of supporting documentation and system limitations, the Navy cannot post timely transactions to establish or support the valuation of Construction-in-Progress (CIP), and establish or support the valuation and ownership of Real Property. The Navy lacks standardized procedures for transferring of real property from Naval Facilities Engineering Command (NAVFAC) to the receiving entities. The Navy cannot validate users of all real property that do not reimburse the provider for good and services, and cannot reconcile their inventory with Department of Defense (DoD) records in accordance with imputed costs policies.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2006

Original Targeted Correction Date: 2nd Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 2nd Qtr, FY 2013

Current Target Date: 2nd Qtr, FY 2013

Reason for Change in Dates: N/A

Validation Process: All corrective action(s) are certified by the responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management control review.

Results Indicator: The material weakness will be corrected when a process and internal control system is developed and implemented to ensure that the Navy has adequate documentation to support accurate and timely Real Property estimates and valuations. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Department of Defense Inspector General (DoDIG) Report. D-2006-072, “Internal Controls Related to Department of Defense Real Property,” dated April 6, 2006
- DoDIG Report. D-2007-48, “Report on Navy Sponsor Owned Material Stored at the Space and Naval Warfare Systems Centers,” dated January 26, 2007
- DoDIG Report. D-2007-85, “Reporting of Navy Sponsor Owned Material Stored at the Naval Air Systems Command Activities,” dated April 23, 2007
- DoDIG Report. D-2008-072, “Controls Over Army Real Property Financial Reporting,” dated March 28, 2008
- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	STARS reconciliation for MILCON Reimbursables (3.1.1)
Completed	Implementation of a fully net-centric environment (3.12)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
4 th Qtr, FY 2009	Complete the Military Construction Program (MILCON) reimbursable corrective action by creating journal vouchers for MILCON (Reimbursable) Lines of Accounting (LOA) in iNFADS System and upload financial data in STARS (3.1-3.1.3)
4 th Qtr, FY 2009	Develop inventory plan for all real property asset classes (3.10.1)

4 th Qtr, FY 2009	Complete Base Realignment and Closure (BRAC) net realizable value by updating NITC depreciation algorithm in iNFADS system, Defense Capabilities and Management (DCM) modifications and include balance for GL 1890/1899 in DCM (3.2)
4 th Qtr, FY 2010	Complete Capital Leases by assessing iNFADS data, updating property record card based on assessment in iNFADS, and modify iNFADS in order to identify capital leases (3.3)
4 th Qtr, FY 2010	Design breakage in Construction In Progress (CIP). Establish requirements and thresholds for inactive project design; identify FIS system query parameters, process and system test and training, and final process and system implementation (3.5 – 3.5.6)
4 th Qtr, FY 2010	Complete DoD-wide asset reconciliation (3.8)

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Account and report imputed costs for real property assets (3.9)
4 th Qtr, FY 2011	Capital improvements to leases include iNFADS modifications and new balance for GL 1820 – Q2 FY 2009 (3.4 – 3.4.6)
2 nd Qtr, FY 2012	Transfer and acceptance of real property (1354/RPUID) to provide accurate real property data (3.6.1)
4 th Qtr, FY 2012	Complete other methods of acquisition (1354 Working Group Phase II) and process controls for real property disposal to ensure accurate real property data (3.6.2, 3.6.3)
4 th Qtr, FY 2012	Develop document retention by performing field level discussion, define required source documentation list, define DoN Policy, develop and test new policy, train and roll out new processes (3.7 – 3.7.9)
4 th Qtr, FY 2012	Periodic inventory of real property (complete inventory once every five years) (3.10)

4 th Qtr, FY 2012	Establish real property acquisition value baseline (3.11)
1 st Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
1 st Qtr, FY 2013	Complete Verification and Validation (V&V) (5)
2 nd Qtr, FY 2013	Complete Management Assertion (6)

(TAB E-2)
**UNCORRECTED MATERIAL WEAKNESS STATUS OF CORRECTIVE ACTIONS
NAVY WORKING CAPITAL FUND**

“Uncorrected Weaknesses Identified During Prior Periods”

Title and Description of Issue: *Financial Reporting of General Equipment, Navy Working Capital Fund.* The Navy is currently working with the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) and Navy major commands to fully implement Statement of Federal Financial Accounting Standard No.23, “eliminating the category national defense property, plant and equipment.” Reclassification of some property that is currently considered Military Equipment to General Equipment will increase the materiality of this line item in future years. Due to lack of supporting documentation, improper interpretation of guidance, underutilization of the accounting system of record and system limitations, the Navy cannot establish and/or support ownership and valuation of General Equipment. Additionally, the Navy cannot substantiate that the asset records in accounting system of record represent all General Equipment assets. For the assets included in the accounting system of record, the Navy cannot include all ancillary costs to the asset or assign a correct useful life. Finally, the Navy’s inability to reconcile their property accountability systems with their financial system causes their presentation and disclosure of the assets to be inaccurate.

Corrective action tasks for the General Equipment segment are divided into four processes consisting of the following:

- Physical Inventory Process
- Receipt and Acceptance Process
- Proper Financial Accounting Treatment for Assets (PFAT4A) Process
- Valuing Equipment Process.

Each process contains similar corrective action implementations, which are: train responsible parties, implement manual controls, execute corrective actions, measure, monitor, disseminate, and test performance, identify control test failures, determine cause, and retrain/retest as necessary.

Functional Category: Financial Reporting

Component: Department of the Navy

Senior Official in Charge: Deputy Assistant Secretary of the Navy (Financial Operations)

Pace of Corrective Action:

Year Identified: FY 2007

Original Targeted Correction Date: 1st Qtr, FY 2009

Targeted Correction Date in Last Year's Report: 4th Qtr, FY 2013

Current Target Date: 4th Qtr, FY 2013

Reason for Change in Dates: N/A

Validation Process: All corrective actions are certified by responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management review.

Results Indicator: The weakness is considered resolved when management asserts that the General Equipment segment is ready for audit and Department of Defense, Office of Inspector General (DoDIG), and Naval Audit Service or other auditors confirm that: General Equipment systems and interfaces are compliant; all required assets are recorded in General Equipment systems; and reported assets do exist. This will be documented by submission of Management Assertion.

Source(s) Identifying Weakness:

- Self-reported deficiencies from management reviews and/or Financial Improvement Program (FIP) discovery and documentation.

Major Milestones to Include Progress to Date:

Numbers in parentheses following each milestone indicate the Work Breakdown Structure (WBS) task number from the May 2009 FIAR FIP Plans.

A. Completed Milestones:

<u>Date:</u>	<u>Milestone:</u>
Completed	Defined Audit-Ready Financial Environment (Integrated Financial Management System) by communicating and distributing Acquire to Retire Audit Readiness (1.3, 1.3.1)
Completed	Identified known weaknesses (1.5)
Completed	Documented effective controls and prioritized control weaknesses (1.7)

Completed

Gap Analysis for the following Commands: BUMED, BUPERS, CNIC, FFC-CPF, NAVSEA, ONR, SPAWAR, SPECWAR (1.8.1 – 1.8.8.2)

B. Planned Milestones through Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
3 rd Qtr, FY 2009	Identify command stakeholders point-of-contact (POCs), Accountable Property Officers (APOs) by command, Navy WAWF POCs by command and Navy Program Execution Office Points-of-Contact (3.1, 3.1.1, 3.1.2, 3.1.3)
4 th Qtr, FY 2009	Receipt and Acceptance Process: implement system changes for WAWF-DPAS interface, create DODAAC table, and update receipt and acceptance policy and procedures (3.2.2.1, 3.2.2.1.2, 3.2.2.2)
4 th Qtr, FY 2009	Update PFAT4A policy and procedures (3.3.1)
4 th Qtr, FY 2009	Valuing Equipment Process: Monitor and Disseminate Navy ERP Impact on general equipment process and controls (3.4.6)
1 st Qtr, FY 2010	Update physical inventory policy and procedures (3.2.1.1)
1 st Qtr, FY 2010	Train responsible parties for the Receipt and Acceptance process and controls, complete Receipt and Acceptance of manual and systemic controls, implement the following general equipment key controls: 1, 2, 4, 5, 9, 16-18 and complete transfer of equipment using WAWF/DPAS interface (3.2.2.3 – 3.2.2.3.1.6)(3.2.2.3.2, 3.2.2.3.2.3)
1 st Qtr, FY 2010	Train responsible parties for the PFAT4A Process and complete PFAT4A manual controls (3.3.2, 3.3.2.5)
3 rd Qtr, FY 2010	Execute Receipt and Acceptance corrective actions, and implement receipt and acceptance manual controls and utilize WAWF/DPAS interface (3.2.2.4 – 3.2.2.4.2)
3 rd Qtr, FY 2010	Execute PFAT4A Corrective Actions. Measure PFAT4A performance and monitor and disseminate performance metrics on period (3.3.3, 3.3.4, 3.3.4.2)

3 rd Qtr, FY 2010	Train responsible parties for Valuing Equipment, complete Valuation manual controls and implement the following general equipment key controls: 11, 13, 15, 28; and the following financial reporting key controls: 3, 4, 6, 7 (3.4.1)
4 th Qtr, FY 2010	Train responsible parties for the Physical Inventory process and control, identify baseline inventory performance, create DPAS records for found equipment, and complete annual/cyclical inventory performance (3.2.1.2, 3.2.1.2.1, 3.2.1.2.1.4, 3.2.1.2.2)
4 th Qtr, FY 2010	Measure Receipt and Acceptance performance and monitor and disseminate performance metrics (3.2.2.5, 3.2.2.5.2)
4 th Qtr, FY 2010	Execute Valuation corrective actions by implementing valuation controls (3.4.2, 3.4.2.1)

C. Planned Milestones Beyond Fiscal Year 2010:

<u>Date:</u>	<u>Milestone:</u>
1 st Qtr, FY 2011	Measure Physical Inventory performance, and monitor and disseminate performance metrics (3.2.1.4, 3.2.1.4.2)
1 st Qtr, FY 2011	Test Receipt and Acceptance performance by developing methodology, testing samples and control effectiveness (3.2.2.6 – 3.2.2.6.4)
1 st Qtr, FY 2011	Test PFAT4A performance by developing methodology, testing samples and control effectiveness (3.3.5 – 3.3.5.4)
2 nd Qtr, FY 2011	Measure Valuation control effectiveness, monitor and disseminate performance metrics on period (3.4.3, 3.4.3.2)
3 rd Qtr, FY 2011	Complete Receipt and Acceptance corrective action by identifying control test failures, determining cause of failure, retrain, and retest (3.2.2.7 – 3.2.2.7.4)
3 rd Qtr, FY 2011	Test Valuation performance by developing methodology, testing samples and control effectiveness (3.4.4 – 3.4.4.4)
3 rd Qtr, FY 2011	Complete PFAT4A corrective action by identifying control test failures, determining cause of failure, retrain, and retest (3.3.6 – 3.3.6.4)

1 st Qtr, FY 2012	Test Physical Inventory performance by developing methodology, testing samples and control effectiveness (3.2.1.5 – 3.2.1.5.4)
2 nd Qtr, FY 2012	Complete Valuation corrective action by identifying control test failures, determining cause of failure, retrain, and retest (3.4.5 – 3.4.5.4)
2 nd Qtr, FY 2012	Complete Physical Inventory corrective action by identifying control test failures, determining cause of failure, retrain, and retest (3.2.1.6 – 3.2.1.6.4)
3 rd Qtr, FY 2012	Execute Physical Inventory corrective actions, perform annual/cyclical inventories for year 1 and ongoing (3.2.1.3 – 3.2.1.3.2.1)
2 nd Qtr, FY 2013	Complete Mock Audit/Final Testing/Corrective Action, perform an end-to-end test process to include procurement and contracting, perform a property accountability testing to include the following: receipt and acceptance, physical inventories, transfers, loans, and disposals, property accountability testing, and correct/retest as necessary (3.4.7 – 3.4.7.2)
2 nd Qtr, FY 2013	Complete Test of Design (TOD) and Test of Effectiveness (TOE), design tests using OMB A-123, Appendix A guidance, perform tests, analyze and summarize results, and define and report weaknesses, if any were identified by tests (4 – 4.4)
4 th Qtr, FY 2013	Complete Verification and Validation (V&V) and Management Assertion (5)(6)